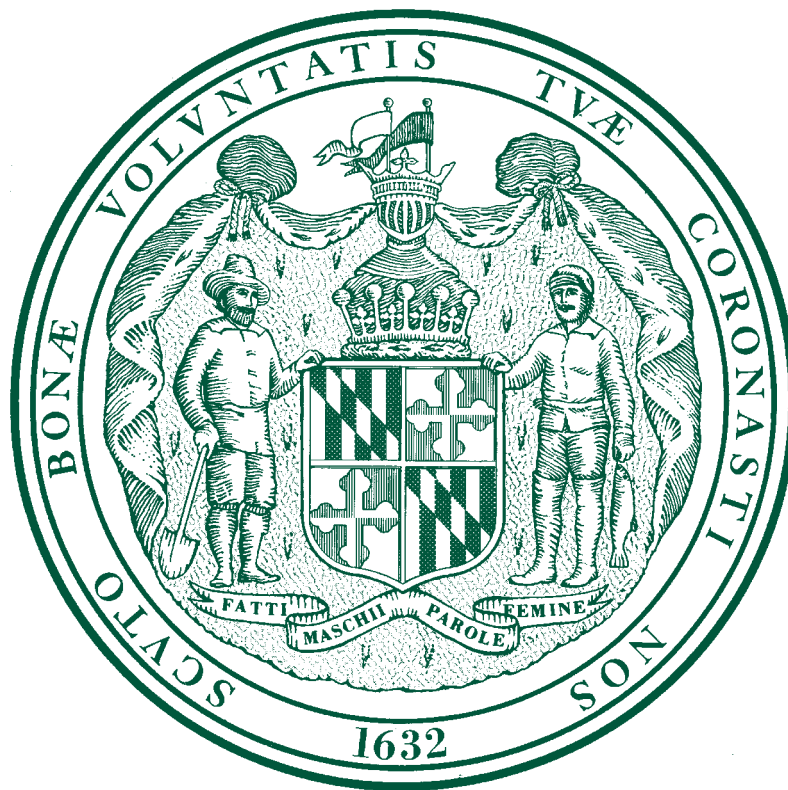


COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2006



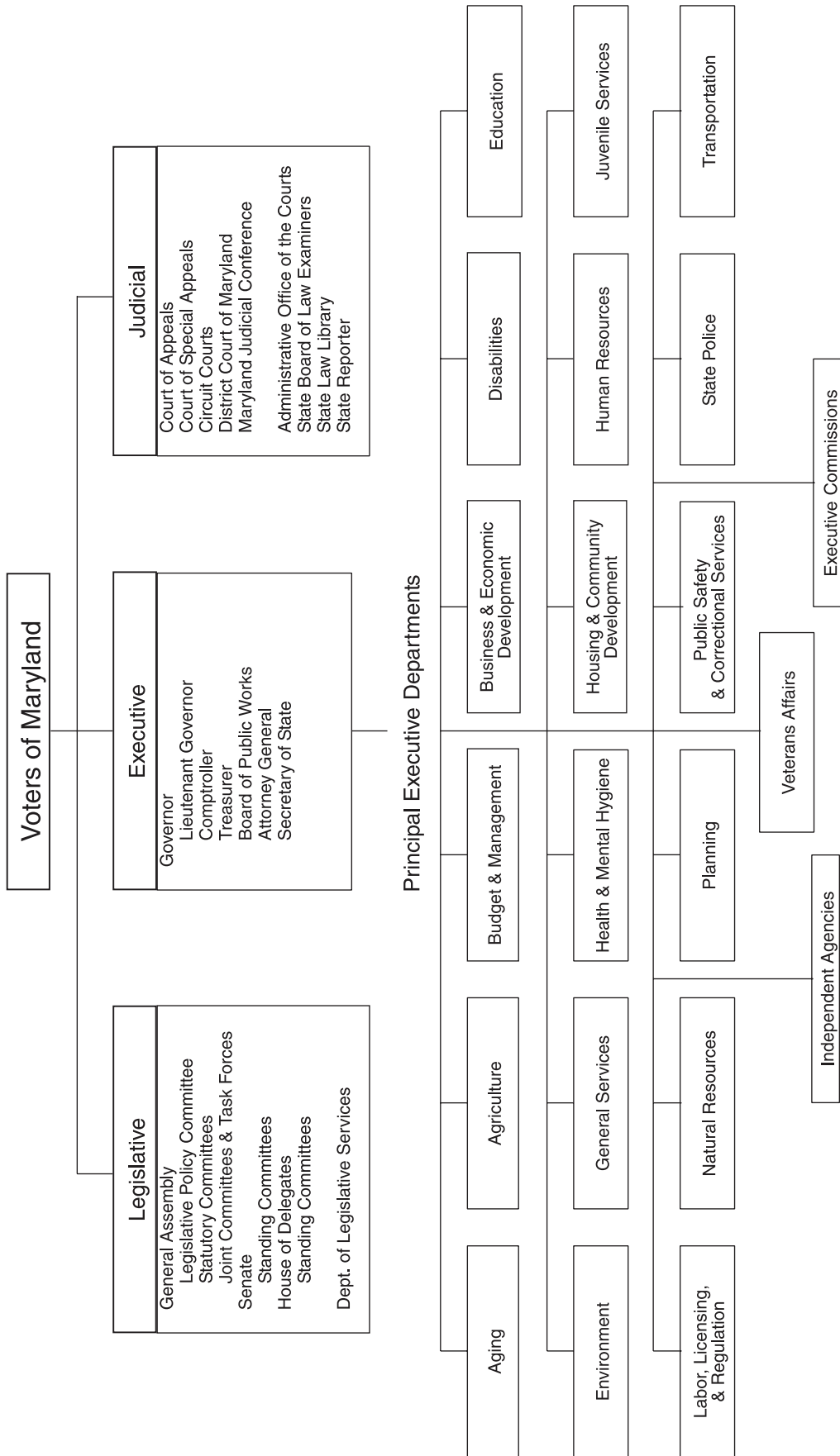
S T A T E O F M A R Y L A N D

STATE OF MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
for the fiscal year ended June 30, 2006

Published
by
General Accounting Division



OVERVIEW OF MARYLAND STATE GOVERNMENT





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Serving the People

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Compliance Division

John Salmon, Director
Information Technology Division

Larry W. Tolliver, Director
Regulatory and Enforcement Division

James M. Arnie, Director
Revenue Administration Division

David F. Roose, Director
Bureau of Revenue Estimates

This report published by:

General Accounting Division
John D. Kenney, Director

Accounting Operations and Financial Reporting

Mary F. Leonard, Assistant Director

Reporting Managers

George Cherupil
Kenneth Henschen
Kenneth Thompson

Administrative Support

Brenda Brady

Accountants

Leon Booker
Rosemary Gorsche
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for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



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MARYLAND SELECTED STATE OFFICIALS

EXECUTIVE

Robert L. Ehrlich, Jr.
Governor
Michael S. Steele
Lieutenant Governor
William Donald Schaefer
Comptroller
J. Joseph Curran, Jr.
Attorney General
Nancy Kopp
Treasurer

JUDICIAL

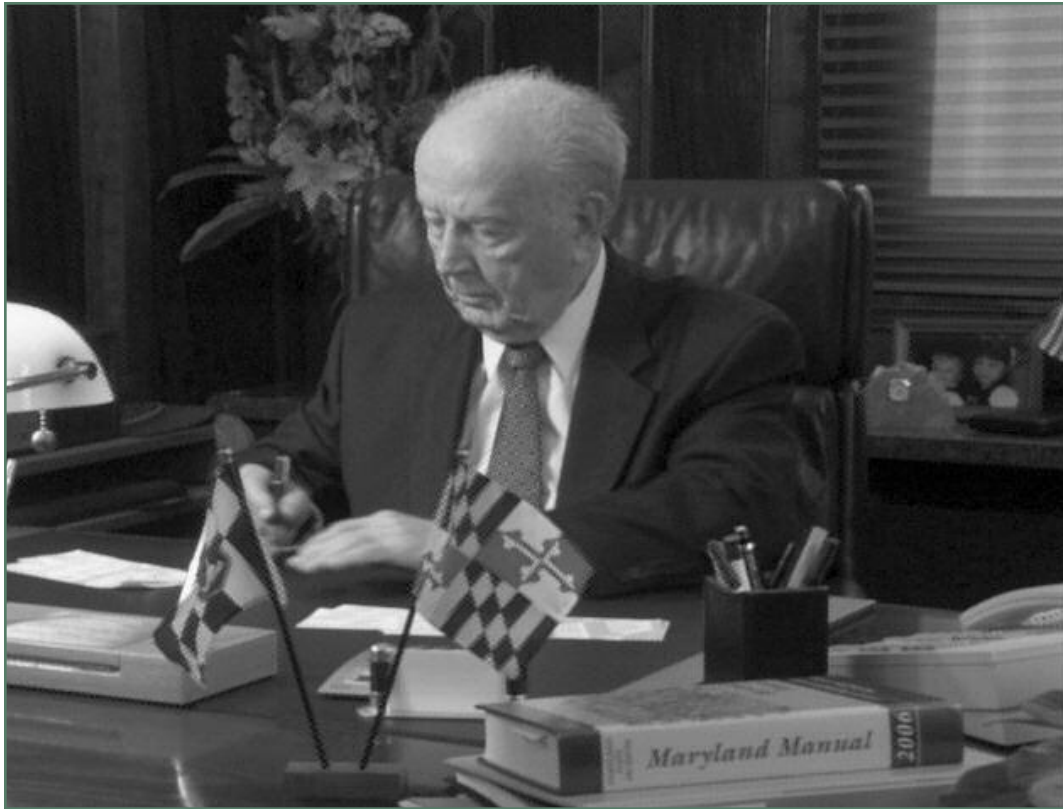
Robert M. Bell
Chief Judge
Court of Appeals of Maryland

LEGISLATIVE

Thomas V. Miller, Jr.
President of the Senate
Michael E. Busch
Speaker of the House of
Delegates



A Message from Comptroller William Donald Schaefer



It has been an honor to serve for the past eight years as Maryland's 30th State Comptroller. When I took this office, described simply in the state's Constitution as having "the general superintendence of the fiscal affairs of the State," I recognized the breadth of that responsibility and the impact on the government, the economy and the well being of our residents. I saw the pride and care that this agency takes in serving taxpayers and all others who rely on the Office of the Comptroller, the fifth oldest agency in state government.

We've come a long way in these eight years. Our reach is broader than ever: from individuals and businesses of all sizes, to vendors and suppliers to Maryland's government, to other state agencies for which we provide information technology services, and, through our payroll unit, to all state employees and certain benefit recipients. I am proud that during my two terms, this agency has continued to provide excellent, efficient service and that many innovations began during these eight years.

Maintaining our state's highly coveted triple A bond ratings was one of my primary goals. We are one of only four states in the nation to have had that ranking for 45 consecutive years. In addition, for the 25th consecutive year, we have received the certificate of Excellence in Financial Reporting from the Government Finance Officers Association of the United States. Our Bureau of Revenue Estimates consistently predicts revenues within highly respectable ranges, despite the fluctuations of the economy, made somewhat more predictable by Maryland's proximity to the nation's capital and the federal government. The widespread confidence expressed in Maryland's government, particularly our fiscal stability, is well placed.

As I leave the Office of the Comptroller, the agency is poised to meet the growing demand for services and to respond to increasingly complex transactions. As Maryland grows and prospers, I am confident that the Office of the Comptroller will retain its reputation as the finest agency of state government. I am grateful for the opportunity to have served in this capacity.

William Donald Schaefer

Revenue Estimates Anchor State's Budgeting Process



Richard Lippenholz

Deputy Comptroller Linda Tanton and David Roose, director of the Bureau of Revenue Estimates, are part of the team leading Maryland's highly respected budget estimating process and guarding its coveted triple A bond rating.

In preparing these estimates, the comptroller seeks advice from a panel representing several of Maryland's key industries, such as construction, biotechnology, health services and finance. The comptroller, through the Bureau of Revenue Estimates, also considers economic forecasts by nationally respected economic consultants including Moody's Economy.com, Global Insight, Sage Policy Analysis, Dr. Mahlon Staszheim of the University of Maryland and RESI of Towson University. Additionally, a revenue monitoring committee representing state government's fiscal agencies meets monthly to review and analyze economic performance and trends.

The reliability of Maryland's revenue estimates and the open, consensus-driven process used to develop the estimates are key reasons for the confidence bond rating agencies have shown in the state's finances. Maryland has received the highest rating of triple A since 1961 and is one of only four states to have held that rating consistently for 45 years.

The Comptroller of Maryland is the chief tax collector for the state. In fiscal year 2006, the office collected \$10.7 billion in general fund revenue – over 81 percent of the total – and an additional \$1 billion in special fund revenue and \$4.1 billion in local income tax and other county revenues. The Comptroller's Office also collected \$6 billion from the personal income tax and \$3.4 billion from the sales and use tax. Corporate income tax at \$846 million was the third largest source of revenue. The comptroller collects revenues from 11 other sources.

Another major responsibility for the comptroller is to provide predictions on future state revenue so that state and local governments can realistically plan their budgets. These forecasts in Maryland are made on a consensus basis. A board consisting of the comptroller, the treasurer and the secretary of the executive department's budget and management agency provide the governor with these estimates three times a year.

The reliability of Maryland's revenue estimates and the open, consensus-driven process used to develop the estimates are key reasons for the confidence bond rating agencies have shown in the state's finances.

Greater Security Increases On-Line Transactions, Data Management

Richard Lippenholz



The services provided by the Information Technology Division, led by John Salmon (left), are essential to the Revenue Administration Division headed by Jim Arnie, as well as many other operations of state government.

recovery system with off-site back up facilities is in place in the case of any emergency or interruption to the primary system. This secondary system also protects data maintained and processed for numerous other state departments and agencies including state government's payroll and general accounting.

The agency provides an award-winning Web site (www.marylandtaxes.com) which received nearly 118 million hits in the last fiscal year. Here many taxpayer transactions (e.g. filings, extension requests, license applications and renewals) are conducted with the utmost speed and convenience.

Information technology is the lifeblood of the Revenue Administration Division. The division collects and accounts for nine distinct revenues totaling \$17.6 billion as well as distributes nearly \$3 billion in local income taxes, currently imposed by the state's 23 counties and Baltimore City. Nearly two million tax returns are processed annually. The division boasts that returns filed electronically receive refunds within 48 hours of acceptance. Technology allows payments to be debited from financial accounts on dates designated by the taxpayer.

In the past eight years, Maryland has seen a more than 300 percent increase in the number of tax returns filed electronically, comparing favorably with the national average increase over the same time period. Latest data indicate that 47 percent of Maryland's individuals filing income taxes and 70 percent of businesses filing withholding taxes now do so electronically. This has resulted in a significant reduction of the state's expense in processing payments and in printing and distributing tax filing materials.

In addition to providing information technology to collect revenues, the Office of the Comptroller's Information Technology Division maintains the 24/7 operation of the Annapolis Data Center, the largest of state government's five mainframe data centers. This center serves such related agencies and revenue functions as the Department of Assessments and Taxation (property taxes), Department of Budget and Management (executive budget agency), the State Treasurer and several others which provide entitlement funds and benefits to citizens.

There is no more critical nor effective partnership in Maryland state government than that of the Office of the Comptroller's Revenue Administration and the agency's Information Technology Division. Maryland uses the most advanced technology to ensure that revenues are processed accurately and quickly, not only to ensure maximum efficiency in the availability of these funds, but to provide customer service that is the envy of many large commercial businesses.

Growing concern about security in information technology and data transmission have led the Comptroller of Maryland to institute a number of advanced enhancements to earlier systems including intrusion prevention measures. Additionally, a disaster

Information technology is the lifeblood of the Revenue Administration Division.

Expanded Compliance and Enforcement Pay Off

Of all of the comptroller's duties, enforcement of the tax laws is probably the most beneficial. Most people pay the taxes they owe, but some people don't, leaving the law-abiding to make up the difference. Thus, one of the most important functions of the Comptroller's Office is ensuring compliance with tax laws, which is accomplished through a variety of programs.

A cooperative tax offset program with the IRS allows the agency to offset federal income tax refunds for state income tax liabilities. These offsets have netted \$123 million since 2000 – one of the most successful such programs in the nation. Since July 1, 2003, a tax clearance requirement for renewal of professional and business licenses has led to payment of outstanding liabilities amounting to \$130 million.

The comptroller regularly posts on the agency's Web site (www.marylandtaxes.com) a list of about 100 individuals and businesses which currently owe overdue taxes, penalties and interest to the state. Since June 2000, when Comptroller Schaefer launched Maryland's *Caught in the Web* program, the agency has collected \$18.3 million from 420 tax delinquents.

The agency won a seven-year legal battle regarding the use of subsidiaries to shift corporate income from Maryland to a state without corporate taxes. The court's decision upheld the comptroller's long-standing position that Delaware holding companies should pay their share of tax on the use of intangibles in the state of Maryland. Closing this frequently used and costly tax loophole brought \$200 million to the state and will continue to contribute to the revenue stream.

An amnesty program, created by the General Assembly and implemented by the comptroller in 2001, resulted in 18,000 delinquent taxpayers paying \$39.4 million in back taxes. The highly pub-

licized program offered delinquent taxpayers a two-month period to pay overdue back taxes and interest without paying a civil or criminal penalty.

Marylanders celebrated two sales tax holidays in the last five years. In 2001 and 2006, the comptroller implemented new laws that allowed shoppers to buy many items of clothing for a limited period of time from Maryland merchants without the usual five percent sales tax.



Richard Lippenholz

The Compliance Division, headed by Jim Loftus (left), and the Regulatory and Enforcement Division, directed by Larry Tolliver, work together to make sure that tax laws are followed and revenue collection is maximized.

In 2002 the Compliance Division initiated a project to review the business activity of alcoholic beverage retailers. Utilizing information provided by Maryland's alcoholic beverage wholesalers, the division has been able to identify retailers that had underreported sales and tax collected. Though the project is not yet complete, the division has assessed over \$40.5 million in taxes, penalties and interest.

In the last two fiscal years, over 97,305 people recovered \$97.5 million in unclaimed property from unknown bank accounts, security deposits, wages and insurance benefits. People learned of their lost assets by visiting the comptroller's Web site, reading inserts in newspapers and taking advantage of informational exhibits at public events like the Maryland State Fair. The Office of the Comptroller also does mailings using updated address information from IRS records and state vehicle registration. The agency currently maintains records on 675,856 accounts worth more than \$309 million, dating from 1966.

Thus, one of the most important functions of the Comptroller's Office is ensuring compliance with tax laws, which is accomplished through a variety of programs.

In addition to the work of the Compliance Division, the Regulatory and Enforcement Division has renewed its efforts to gain compliance relating to alcohol, tobacco, motor fuel and retail sales taxes. The current structure of the division results from efforts to streamline many similar enforcement-related functions within the

Office of the Comptroller. Previously, these functions were carried out by three separate divisions, each with its own director.

This merger has resulted in a more efficient and productive operation with over \$1 million of retail sales tax being collected in FY 2006, compared with \$292,000 in FY 2000. Since FY 1999, the division's confiscation of cigarettes has increased in value from \$131,000 or a tax loss of \$26,000 to \$741,996 in the past fiscal year, representing a tax loss of \$118,665. Cigarette tax arrests have risen from seven in FY 1999 to 160 in the past year, some with direct ties to terrorist activity. The FY 2006 arrest of 87 people for alcoholic beverage violations, along with the confiscation of beverages valued at \$10,592, compares with only one arrest in FY 1999. The recent enforcement of motor fuel tax laws has resulted in the arrest of 228 individuals in the past fiscal year.

These efforts are above and beyond the FY 2006 collection of over \$310 million in alcohol and tobacco tax revenues as well as nearly \$774 million in motor fuel taxes.

All of these functions, in addition to a nationally known and highly respected laboratory where motor fuels are tested for content and quality, reflect on the Regulatory and Enforcement Division's evolution into an efficient, centralized unit with a common approach to enforcement and regulation of the areas under its management.

Watching the Books and Writing the Checks



Richard Lippenholz

The Central Payroll Bureau, with Robert Murphy (left) as director, works with the General Accounting Division and John Kenney, director, to provide centralized support services to other state agencies.

The division also pays bills from vendors, a responsibility that involves writing about 1.5 million checks a year. Through an expanded corporate purchasing card program for small purchases under \$2,500, authorized personnel use credit cards, and General Accounting then makes only one payment a month for all card transactions. Since 1999, corporate card purchases have expanded from \$37.9 million to \$206 million annually. Making one payment per month earns a rebate from the card - issuing banks and has generated \$10.6 million to the state treasury in the last eight years. In addition, during this period, the state saved about \$1.1 million in postage due to the issuance of one check to the bank versus thousands of checks to vendors.

Each year, the General Accounting Division prepares this comprehensive financial report, showing the income and expenses of all state agencies. For 25 consecutive years, the division has received a Certificate for Excellence in Financial Reporting from the Government Finance Officers Association of the U.S. for its adherence to generally accepted accounting principles. The financial report is included in the official statement distributed to rating agencies in connection with general obligation bond sales and has been an important factor in maintaining the state's triple A bond rating for 45 years.

In another state-wide support function, the Comptroller's Office Central Payroll Bureau is responsible for issuing bi-weekly paychecks to approximately 104,000 employees consisting of regular state, university system and contractual employees. This utilizes electronic methodology to enhance the audit of submitted pay records and the generation of payroll checks. The division was formed in 1953 to centralize payroll services for most state employees.

There are offices that serve the public directly, and there are offices that serve the offices that serve the public. The latter are often the most critical and, often, the most invisible.

Such is the case of the general accounting and payroll divisions of the Comptroller's Office. General Accounting is the state's chief accountant and bookkeeper, keeping a watchful eye on state government spending - not only for the Comptroller's Office, but for most agencies of the state government. With R*Stars, a sophisticated state-wide accounting and financial reporting system, the General Accounting Division is the centralized accounting and record-keeping agency for the state.

To keep tabs on spending, General Accounting has its own auditors who review thousands of payment requests from state agencies every day to make sure that expenditures such as supplies and travel expenses are legitimate and in accordance with state spending regulations.

General Accounting is the state's chief accountant and bookkeeper, keeping a watchful eye on state government spending

STATE OF MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2006

TABLE OF CONTENTS

INTRODUCTORY SECTION

State Organization Chart	ii
GFOA Certificate of Achievement	iii
Selected State Officials	2
State Comptroller's Letter of Transmittal	3

FINANCIAL SECTION

Report of Independent Public Accountants	10
Management's Discussion and Analysis	12

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Assets	22
Statement of Activities	24

Governmental Funds Financial Statements

Balance Sheet	26
Reconciliation of the Governmental Funds' Fund Balance to the Statement of Net Assets, Net Assets' Balance	27
Statement of Revenues, Expenditures, and Changes in Fund Balances	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29

Enterprise Funds Financial Statements

Statement of Fund Net Assets	32
Statement of Revenues, Expenses and Changes in Fund Net Assets	34
Statement of Cash Flows	36

Fiduciary Funds Financial Statements

Statement of Fiduciary Net Assets	38
Statement of Changes in Fiduciary Net Assets	39

Component Units Financial Statements

Combining Statement of Net Assets	42
Combining Statement of Activities	44

<i>Notes to the Financial Statements</i>	46
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal Funds	84
Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances	86
Required Supplemental Schedule of Funding Progress for Pension and Retirement System	87
Required Supplemental Schedule of Funding Progress for Maryland Transit Administration Pension Plan	88
Notes to Required Supplementary Information	89

COMBINING FINANCIAL STATEMENTS

Non-major Governmental Funds

Combining Balance Sheet	93
Combining Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Fund Balances	94

Non-major Enterprise Funds

Combining Statement of Net Assets	96
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	97
Combining Statement of Cash Flows	98

Fiduciary Funds

Combining Statement of Fiduciary Net Assets - Pension and Other Employee Benefits Trust Funds	100
Combining Statement of Changes in Plan Net Assets - Pension and Other Employee Benefits Trust Funds	101
Combining Schedule of Fiduciary Net Assets - Retirement and Pension System of Maryland	102
Combining Schedule of Changes in Plan Net Assets - Retirement and Pension System of Maryland	103
Combining Statement of Fiduciary Net Assets - Agency Funds	104
Combining Statement of Changes in Assets and Liabilities - Agency Funds	105

Non-major Component Units

Combining Statement of Net Assets	107
Combining Statement of Activities	108

STATISTICAL SECTION

Introduction	110
Net Assets by Component, Primary Government - Last Five Fiscal Years	111
Changes in Net Assets - Last Five Fiscal Years	112
Expenses by Function, Primary Government - Last Five Fiscal Years	113
Revenues, Primary Government - Last Five Fiscal Years	114
Fund Balances, Governmental Funds - Last Ten Fiscal Years	115
Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years	116
Personal Income Tax Filers by Subdivision Tax Year Ended December 31, 2005	118
State Personal Income Tax and Sales and Use Tax Rates - Last Ten Calendar Years	119
Personal Income Tax Filers and Liability by Income Level - Last Eight Tax Years Ended December 31	120
Sales and Use Tax Receipts by Principal Type of Business- Last Ten Fiscal Years	122
Schedule of Ratio of Outstanding Debt by Type - Last Five Fiscal Years	123
Ratio of General Bonded Debt To Actual Value and General Bonded Debt Per Capita - Last Ten Fiscal Years	124
Legal Debt Margin Information - Last Ten Fiscal Years	125
Schedule of Taxes Pledged to Consolidated Transportation Bonds and Net Revenues as Defined for Purposes of Consolidated Transportation Bonds Coverage Tests - Last Ten Fiscal Years	126
Ratio of Pledged Assets to Revenue Bonds, Community Development Administration - Last Ten Fiscal Years	127
Schedule of Demographic Statistics - Last Ten Years	128
Schedule of Employment by Sector - Prior Year and Nine Years Prior	129
Maryland's Ten Largest Private Employers	130

State Employees by Function/Program - Last Three Fiscal Years	131
Schedule of Miscellaneous, Operating and Capital Assets Statistics by Function - Last Three Fiscal Years	132

FINANCIAL SCHEDULES REQUIRED BY LAW

Schedule of Estimated and Actual Revenues By Source-Budgetary Basis	134
Schedule of Budget and Actual Expenditures and Encumbrances by Major Function - Budgetary Basis	135
Schedule of Changes in Fund Equities - Budgetary Basis	136
Schedule of Funds Transferred to Political Subdivisions	137
Schedule of Taxes Receivable from Collectors of State Property Taxes	138
Schedule of Estimated Revenues - Budgetary Basis	139
Schedule of General, Special, Federal, Current Unrestricted and Current Restricted Fund Appropriations - Budgetary Basis	140



INTRODUCTORY SECTION

State of Maryland Selected State Officials

EXECUTIVE

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lieutenant Governor

William Donald Schaefer
Comptroller

J. Joseph Curran, Jr.
Attorney General

Nancy Kopp
Treasurer

JUDICIAL

Robert M. Bell
Chief Judge
Court of Appeals of Maryland

LEGISLATIVE

Thomas V. M. Miller, Jr.
President of the Senate
(47 Senators)

Michael E. Busch
Speaker of the House of the Delegates
(141 Delegates)



William Donald Schaefer
Comptroller

John D. Kenney
Director
General Accounting Division

Honorable Members of the General
Assembly and the Governor,
State of Maryland

November 30, 2006

The Comprehensive Annual Financial Report (CAFR) of the State of Maryland (State), for the fiscal year ended June 30, 2006, includes the financial statements of the State as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller.

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of Maryland's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's basic financial statements by a firm of independent auditors selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Abrams, Foster, Nole & Williams, P.A., has been included in the financial section of this report. In addition, Abrams, Foster, Nole & Williams, P.A. performed an audit to meet the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and such information is contained in another reporting package.

The State has issued guidelines to its agencies for establishing effective internal controls. As a recipient of Federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines.

The accompanying financial statements include all funds of the State (primary government), as well as all component units. Component units are legally separate entities for which the primary government is financially accountable. The various colleges and universities and the Maryland Stadium Authority are reported as major component units. The Maryland Prepaid College Trust, the Maryland Environmental Service, the Maryland Industrial Development Financing Authority and the Maryland Food Center Authority are combined and presented as non-major component units.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent public accountants.

BACKGROUND INFORMATION ON THE STATE:

Maryland ratified the United States Constitution on April 28, 1788. Its capital is Annapolis, where the principal activities of state government are centered. Its employment is based largely in services, trade and government. These sectors, along with finance, insurance and real estate are the largest contributors to the gross state product. The State has a bicameral legislature, the General Assembly, composed of the Senate with 47 members and the House of Delegates with 141 members. The General Assembly meets annually for a 90-day session beginning on the second Wednesday in January.

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations. Maryland maintains its accounts to conform with the legally mandated budget and also to comply with generally accepted accounting principles. Financial control is generally exercised under the budgetary system.

There is a Spending Affordability Committee which consists of certain designated officers of the General Assembly and other members as may be appointed by the President of the Senate and the Speaker of the House of Delegates. Each year the Committee must submit a report to the General Assembly's Legislative Policy Committee and to the Governor recommending the level of State spending, the level of new debt authorization, the level of State personnel and the use of any anticipated surplus funds.

Also, the General Assembly created a Capital Debt Affordability Committee, the members of which are the Treasurer, the Comptroller, the Secretary of Budget and Management, the Secretary of Transportation, and one person appointed by the Governor. This Committee is required to submit to the Governor by September 10 of each year an estimate of the maximum amount of new general obligation debt that prudently may be authorized. The Committee's recent reports encompass all tax supported debt, including in addition to general obligation debt, bonds issued by the Department of Transportation, bonds issued by the Maryland Stadium Authority and capital lease transactions. Although the Committee's responsibilities are advisory only, the Governor is required to give due consideration to the Committee's finding in preparing a preliminary allocation of new general obligation debt authorizations for the next ensuing fiscal year.

INFORMATION ON THE STATE'S ECONOMIC CONDITION:

Although continuing to grow, Maryland's economy has slowed in 2006. Employment growth was 1.4% in 2005, below national growth for the first time in six years, but growth has fallen to under 1.3% through nine months of 2006, and the gap between national growth has widened. Unemployment is currently at 4.0%, having risen half a point from its low earlier in the year, but is still at historically low levels and still more than half a point below the national average, although this gap has narrowed. Slowdowns in the construction, leisure and hospitality services and professional and business services industries have offset the accelerating education and health services and information industries. While the State's economy is expected to continue to expand, it, like the national economy, is expected to slow through 2007.

The housing market in Maryland outperformed that the national market over the past five years. Since 2000, when the median price of existing homes was nearly the same in Maryland and the nation, home prices in Maryland more than doubled, while national home prices have only risen by two-thirds. This has caused a surge in housing related employment. Maryland's construction, building supplies, finance, and real estate industries have all benefited over the past five years, growing roughly 39.8% as a group while the rest of the private sector grew by only 3.0%. These sectors generated over 18,000 new jobs in the State since 2000, almost one-quarter of the total, despite representing only 3.1% of private sector employment in 2005.

But the housing market has turned, and the drivers of economic growth over the past five years are now likely to become drags. The woes the construction industry, for example, can cause Maryland's economy are clear. In the recession of the early 1990s, over 46,000 construction jobs were lost, nearly half of the jobs lost in the State. Not until September 2003 did the construction industry regain all of these jobs, eight full years after total employment in the State had reached a new high. The impact of the housing market on construction employment is one of the key factors facing the State's economy at this point. Whether nonresidential construction can compensate and how far residential construction falls will play a large role in determining whether economic growth in the State in 2007 is stagnant or negative, or is relatively strong for this point in the business cycle.

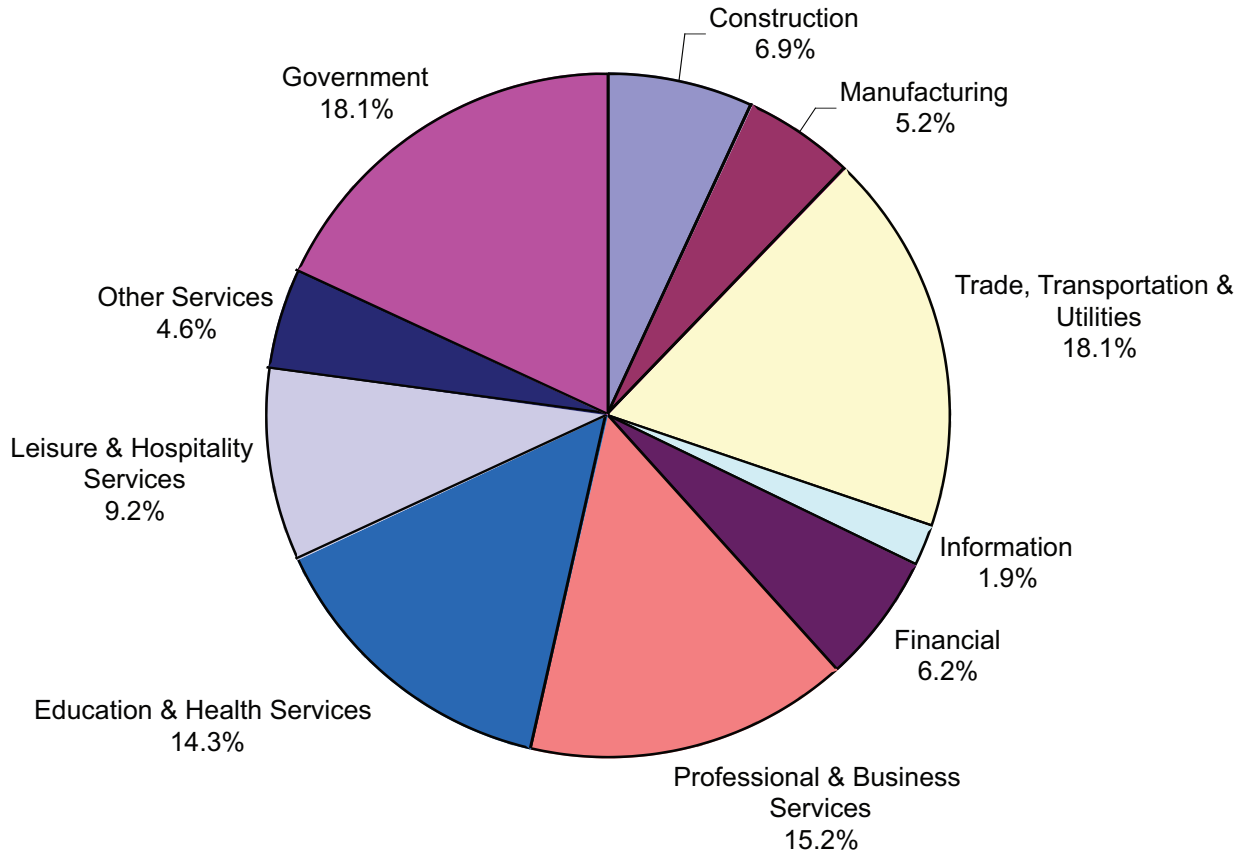
Aside from the housing sector, the State's economy faces other risks. Energy prices have fallen dramatically over the past few months, but they could spike at any time, particularly with continued instability in the Middle East. The very high cost of energy over the past year did not put a noticeable break on Marylanders' spending, but much of that spending has been financed by debt. Another bout of high gasoline or natural gas prices may not be so easily absorbed. If the national economy falls into recession, due to housing or any other reason, Maryland will not escape unscathed.

Lastly, there is a risk that the Base Realignment and Closure Commission (BRAC) recommendations will not result in as great an impact on Maryland's economy as initially hoped. Over the past year, with more detailed analysis of the impact of the BRAC recommendations, a consensus has developed that many of the jobs moved into the State, particularly from New Jersey, will not bring the incumbents with them but instead will be filled by naturally occurring population growth. And many of the jobs brought over from Virginia may be filled by the incumbents, but at least for the short term, many will commute into the State or telecommute. State and local agencies are continuing study of the impact. Despite these issues, the BRAC process will be a substantial positive for the State's economy over the latter half of this decade.

Maryland's economy is expected to continue growing, although at a slower rate than in 2005. Housing-related industries including construction, finance and real estate will join with a declining manufacturing sector and stagnant trade industry to offset healthy expansion in the services, especially education and health services. Federal government procurement, only about half of which is defense-related, and other federal spending will continue to provide a solid base for the State, as will the State's wealth and increasing number of high-skill jobs. Employment growth is expected to reach 1.4% in 2006 before slowing to 1.1% in 2007. A modest acceleration to 1.3% in 2008 is forecast. Wage and salary growth will reach 7.6% in 2006 before slowing to 5.6% in 2007 and 2008. The following chart provides an overview of Maryland's employment for the next year.

Forecast 2007 Maryland Employment

2,612,900 Jobs



MAJOR BUDGETARY INITIATIVES:

The State's budget for fiscal year 2007 totals \$29.6 billion, a 12% increase over the fiscal year 2006 budget. This includes an increase of \$462 million for public school education, kindergarten through grade 12. Public Safety had an increase of 3.7% over the fiscal year 2006 budget, including \$32.6 million to support recruitment and retention of highly trained correctional officers and \$10 million to continue development of Maryland's six-year \$70 million Public Safety Communications Interoperability Transformation Program.

The 2007 Medicaid budget is \$4.7 billion; a \$350 million or 8.5% increase over fiscal year 2006. Budget highlights for health care include \$20.4 million for programs to help Marylanders with developmental disabilities; an increase of \$10.6 million to expand the Medicaid Buy-In program to be able to maintain Medicaid coverage for the disabled after obtaining employment, an increase of \$4.4 million to support substance abuse treatment programs and \$20 million for the Stem Cell Research Fund.

The Bay Restoration Fund, starting in 2007, is anticipated to receive approximately \$58 million per year. These revenues are expected to be pledged as security for future revenue bonds issued by the Maryland Water Quality Financing Administration and the proceeds applied to grant funds to upgrade wastewater treatment plants and enhance nutrient removal technology.

Maryland's fiscal year 2007 capital budget totals approximately \$3.2 billion. This amount includes \$1.4 billion for State-owned capital projects as well as capital programs that provide grants and loans to local governments and the private and non-profit sectors. This amount also includes \$382.8 million for land preservation programs, and \$281 million for public school construction. The remainder of the capital budget, \$1.8 billion, is for highway projects, mass transit and other transportation improvements.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Maryland has received a Certificate of Achievement for the last 25 consecutive years (fiscal years ended 1980-2005). We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the General Accounting Division with assistance from other personnel from the various departments and agencies of the State.

I will be pleased to furnish additional information on the State's finances upon request.

Sincerely,

A handwritten signature in black ink, reading "William Donald Schaefer". The signature is fluid and cursive, with the first name "William" being the most prominent.

William Donald Schaefer,

Comptroller of Maryland



FINANCIAL SECTION

Abrams, Foster, Nole & Williams, P.A.

Certified Public Accountants

2 Hamill Road, Suite 241
West Quadrangle
Baltimore, MD 21210-1886
(410) 433-6830 / Fax (410) 433-6871

Member: American Institute of Certified Public Accountants
and Maryland Association of Certified Public Accountants

November 30, 2006

Report of Independent Public Accountants

The Honorable William D. Schaefer
Comptroller of Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland (the State), as of June 30, 2006 and for the year then ended, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements, schedules and supplementary information are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of (1) certain Economic Development – Loan Programs; (2) Unemployment Insurance Program; (3) Maryland State Lottery Agency; (4) Maryland Transportation Authority; (5) Economic Development Insurance Programs; (6) certain foundations included in the higher education component unit; (7) Maryland Environmental Service; (8) Maryland Food Center Authority; (9) Investment Trust Fund; and (10) Deferred Compensation Plan, which represent the percentages of the assets, net assets and operating revenues or additions of the opinion units listed below.

	Percentage of Opinion Unit		
	Total Assets	Total Net Assets	Total Operating Revenues
Business type activities:			
Economic Development-Loan Programs	46.2 %	33.3 %	7.1 %
Unemployment Insurance Program	13.9	23.2	18.5
Maryland State Lottery Agency	3.7	0.6	57.9
Maryland Transportation Authority	31.7	35.5	14.2
Economic Development-Insurance Programs	1.3	2.0	0.1
Total percentage of business type activities	96.8	94.6	97.8
Component units:			
Major -			
Higher Education Foundations	15.1	17.9	8.1
Non-Major -			
Maryland Environmental Service	0.9	0.2	3.0
Maryland Food Center Authority	0.3	0.5	0.1
Total percentage of component units	16.3	18.6	11.2
Fiduciary Funds:			
Investment Trust Fund	4.1	4.5	52.1
Deferred Compensation Plan	5.1	5.6	3.0
Total percentage of fiduciary funds	9.2	10.1	55.1

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned funds and component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland as of June 30, 2006, and the respective changes in the financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, required supplemental schedules of funding progress for the Pension and Retirement System and the Maryland Transit Administration Pension Plan, and the respective budgetary comparison for the budgetary general, special and Federal funds as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of Maryland's basic financial statements. The combining financial statements, schedules, introductory and statistical sections, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report and the financial schedules required by law have not been subjected to the auditing procedures applied by us or the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Abrams, Foster, Nole & Williams, P.A.

STATE OF MARYLAND

Management's Discussion and Analysis

Management of the State of Maryland provides this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2006. Please read it in conjunction with the Comptroller's letter of transmittal, which can be found in the Introductory Section of this report and the State's financial statements which follow this section.

Financial Highlights

Government-wide

- Maryland reported net assets of \$18.6 billion and \$16.9 billion in fiscal years 2006 and 2005, respectively.
- Of this amount in fiscal year 2006, a balance of \$1.8 billion was reported as total unrestricted net assets, which includes a \$140 million balance in governmental activities and \$1.7 billion balance in business-type activities.
- The State's total net assets increased by \$1.7 billion as a result of this year's operations. The net assets for governmental activities increased by \$1.3 billion (10.3%). Net assets of business-type activities increased by \$379 million (8.4%).
- The State's governmental activities had total expenses of \$22.3 billion, total revenues of \$23.1 billion and net transfers from business-type activities of \$458 million for a net increase of \$1.3 billion.
- Business-type activities had total expenditures of \$2.0 billion, program revenues of \$2.9 billion, and transfers out of \$458 million for a net increase in net assets of \$379 million.
- Total State revenues were \$26.0 billion, while total costs for all programs were \$24.3 billion.

Fund Level

- Governmental funds reported a combined fund balance of \$4.3 billion, an increase of \$1.1 billion (35.0%) from the prior year.
- The General Fund reported an unreserved, undesignated fund balance of \$731 million and an unreserved, designated fund balance of \$1.3 billion compared to an unreserved undesignated fund balance of \$308 million and an unreserved, designated fund balance of \$777 million last year, an increase of \$423 million and \$534 million, respectively. The total unreserved fund balance in the governmental funds was \$2.2 billion, compared to the unreserved fund balance of \$1.1 billion in the prior year.
- Governmental funds reported a total reserved fund balance of \$2.1 billion in 2006, the same balance as the prior year. Of this amount, \$805 million was in the "State Reserve Fund" and available for future needs, an increase of \$265 million over the prior year.

Long-term Debt

- Total bonds, obligations under long-term leases and other nontraditional Transportation debt at year end was \$10.0 billion, a net increase of \$484 million (5%) over the prior year.
- \$750 million General Obligation Bonds and \$100 million Transportation Bonds were issued during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State of Maryland's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists readers in assessing the State's economic condition at the end of the fiscal year. The statements include all fiscal year revenues and expenses, regardless of whether cash has been received or paid. The government-wide financial statements include the following two statements.

The *Statement of Net Assets* presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of

the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The above financial statements distinguish between the following three types of state programs or activities:

Governmental Activities - The activities in this section are typically supported by taxes and intergovernmental revenues, i.e., federal grants. Most services normally associated with State government fall into this category, including the Legislature, Judiciary, and the general operations of the Executive Department.

Business-Type Activities - These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include insurance and loan programs for economic development, the Unemployment Insurance Program, the Lottery, the Transportation Authority and Maryland Correctional Enterprises, a program which constructs office furnishings utilizing the prisons' inmate population.

Discretely Presented Component Units - The government-wide statements include operations for which the State has financial accountability, but are legally separate entities. Financial information for these component units is reported separately from the financial information presented for the primary government. The component unit activities include Higher Education, the Maryland Stadium Authority and other non-major proprietary activities. All of these entities operate similarly to private sector business and to the business-type activities described above. The component unit Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College and Baltimore City Community College and certain affiliated foundations. The non-major component units include the Maryland Food Center Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority, and the College Savings Plans of Maryland.

Complete financial statements of the individual component units can be obtained from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

This report includes two schedules (pages 27 and 29) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned and other assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but are recognized on the government-wide statements.
- Deferred bond issuance costs are capitalized and amortized on the government-wide statements, but reported as expenditures in governmental funds.
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, and bonds and notes payable only appear as liabilities in the government-wide statements.
- Capital outlays result in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other transactions represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The government-wide financial statements can be found on pages 22-25 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental, enterprise, and fiduciary. Each of these categories uses a different accounting approach.

Governmental funds - Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the pages immediately following the governmental funds financial statements.

The State maintains five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Department of Transportation-special revenue fund, both of which are considered to be major funds. Data from the remaining three governmental funds are combined into a single, aggregated presentation. Data for the non-major governmental funds, namely, the debt service fund for general obligation bonds, the debt service fund for transportation revenue bonds and the capital projects fund, is provided in the form of combining statements elsewhere in this report. These funds are reported using modified accrual accounting, which measures cash and all other assets which can be readily converted to cash. The basic governmental funds financial statements can be found on pages 26-29 of this report.

Enterprise funds – Enterprise funds are used to show activities that operate similar to activities of commercial enterprises. These funds charge fees for services provided to outside customers including local governments. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the enterprise fund financial statements because they both utilize accrual accounting, the same method used for businesses in the private sector.

The State has six enterprise funds, four of which are considered to be major enterprise funds. These funds are: Economic Development - Loan Programs, the Unemployment Insurance Program, the Lottery Agency, and the Transportation Authority. Data for the non-major enterprise funds, Economic Development - Insurance Programs and Maryland Correctional Enterprises, are combined into a single aggregated presentation. Individual fund data for these non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic enterprise funds financial statements can be found on pages 32-37 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are restricted in purpose and are not available to support the State's own programs. Fiduciary funds use accrual accounting.

The State's fiduciary funds include the Pension and Other Employee Benefits Trust Funds, the Investment Trust Fund and Agency Funds. The Pension and Other Employee Benefits Trust Funds consist of the Retirement and Pension System, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Investment Trust Fund accounts for the transactions, assets, liabilities and fund equity of an external investment pool. Agency funds account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals. Individual fund detail for the fiduciary funds can be found in the combining financial statements.

The basic fiduciary funds financial statements can be found on pages 38-39 of this report.

Combining Financial Statements, Component Units – The government-wide financial statements present information for the component units in a single aggregated column in the Statement of Net Assets and the Statement of Activities. Combining Statement of Net Assets and Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets have been provided for the Component Unit Proprietary Funds and provide detail for each major proprietary component unit, with a combining column for the non-major component units. Individual financial statement information for the non-major component units is provided elsewhere in this report.

The combining financial statements for the component units can be found on pages 42-44 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 46-82 of this report.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the budgetary general, special revenue and federal funds, along with a reconciliation of the statutory and Generally Accepted Accounting Principles (GAAP) fund balances at fiscal year end. This report also presents certain required supplementary information concerning the State's progress in funding obligations to provide pension benefits and includes a footnote concerning budgeting and budgetary control. Required supplementary information immediately follows the notes to the financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements referred to earlier in connection with non-major governmental, enterprise, and fiduciary funds and non-major component units are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The State's combined net assets (government and business-type activities) totaled \$18.6 billion at the end of 2006, compared to \$16.9 billion at the end of the previous year, an increase of \$1.7 billion or 9.8% during the current fiscal year, compared to an increase of \$1.8 billion in the prior year. This increase reflects the continued improvement in revenues, mainly the various types of taxes, while the growth in expenses also continued to be contained.

Net Assets as of June 30, 2006 (Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$10,103	\$8,619	\$6,319	\$6,026	\$16,422	\$14,645
Capital assets	17,589	16,810	1,569	1,499	19,158	18,309
Total assets	27,692	25,429	7,888	7,525	35,580	32,954
Long-term liabilities	7,753	7,103	2,647	2,747	10,400	9,850
Other liabilities	6,243	5,908	365	281	6,608	6,189
Total liabilities	13,996	13,011	3,012	3,028	17,008	16,039
Net assets:						
Invested in capital						
assets, net of related debt	13,406	12,940	1,304	1,218	14,710	14,158
Restricted	150	774	1,902	1,828	2,052	2,602
Unrestricted	140	(1,296)	1,670	1,451	1,810	155
Total net assets	\$13,696	\$12,418	\$4,876	\$4,497	\$18,572	\$16,915

The largest portion of the State's net assets, \$14.7 billion, reflects investment in capital assets such as land, buildings, equipment, and infrastructure, less any related debt to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens. Consequentially, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

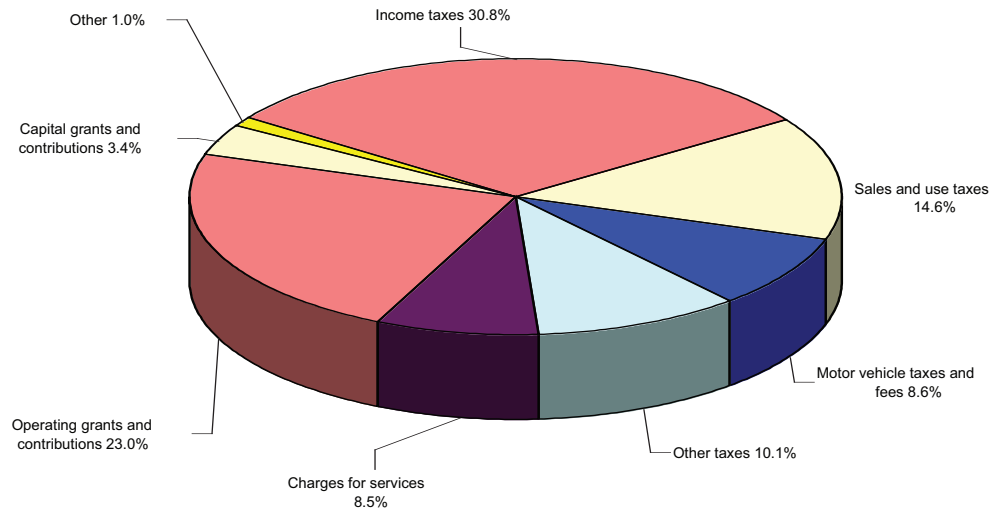
In addition, a portion of the State's net assets, \$2.1 billion, represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets, \$1.8 billion, reflects the State's revenues over expenses.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

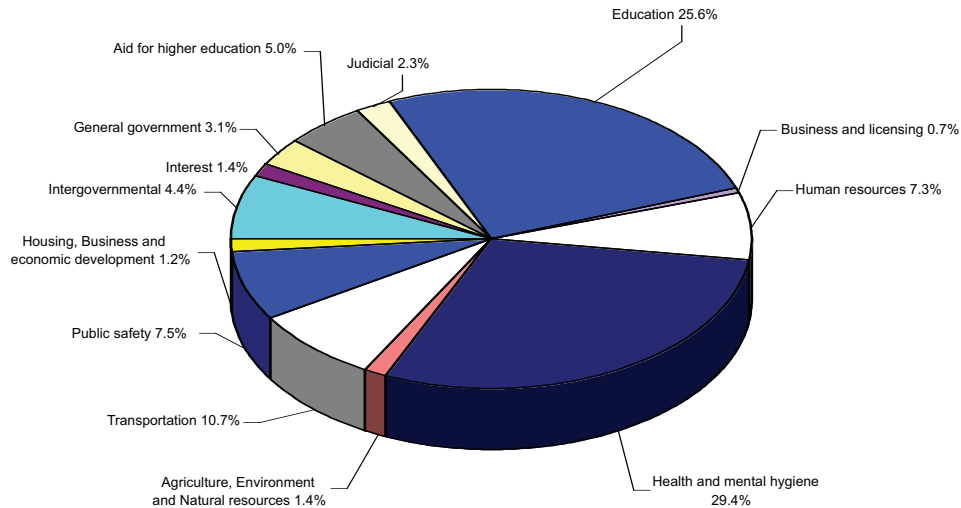
Changes in Net Assets
For the Years Ended June 30, 2006
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 1,956	\$ 2,070	\$2,782	\$2,678	\$ 4,738	\$ 4,748
Operating grants and contributions	5,323	5,091	27	26	5,350	5,117
Capital grants and contributions	794	788	42	52	836	840
General revenues:						
Income taxes	7,120	6,830			7,120	6,830
Sales and use taxes	3,386	3,150			3,386	3,150
Motor vehicle taxes	1,983	2,032			1,983	2,032
Other taxes	2,333	2,105			2,333	2,105
Unrestricted investment earnings	251	130	4	24	255	154
Total revenues	23,146	22,196	2,855	2,780	26,001	24,976
Expenses:						
General government	693	748			693	748
Health and mental hygiene	6,588	6,202			6,588	6,202
Education	5,702	5,180			5,702	5,180
Aid for higher education	1,103	1,074			1,103	1,074
Human resources	1,623	1,595			1,623	1,595
Public safety	1,675	1,499			1,675	1,499
Transportation	2,382	1,913			2,382	1,913
Judicial	507	476			507	476
Labor, licensing and regulation	158	170			158	170
Natural resources and recreation	182	185			182	185
Housing and community development	217	213			217	213
Environment	85	78			85	78
Agriculture	57	56			57	56
Business and economic development	57	58			57	58
Intergovernmental grants	979	1,453			979	1,453
Interest	318	304			318	304
Economic development loan programs			177	180	177	180
Unemployment insurance program			404	432	404	432
State Lottery			1,061	1,005	1,061	1,005
Transportation Authority			335	325	335	325
Maryland Correctional Enterprises			41	38	41	38
Total expenses	22,326	21,204	2,018	1,980	24,344	23,184
Increase in net assets before transfers and special items	820	992	837	800	1,657	1,792
Transfers and special items	458	421	(458)	(421)	0	0
Change in net assets	1,278	1,413	379	379	1,657	1,792
Net assets - beginning	12,418	11,005	4,497	4,118	16,915	15,123
Net assets - ending	\$13,696	\$12,418	\$4,876	\$4,497	\$18,572	\$16,915

REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



EXPENDITURES BY FUNCTION - GOVERNMENTAL ACTIVITIES



Governmental Activities

Governmental activities in fiscal year 2006 resulted in an increase to the State's net assets of \$1.3 billion, compared to a net increase of \$1.4 billion for the prior year. Comparing current year activities to prior year discloses that revenues increased by \$950 million or 4.3%, while expenses increased by \$1.1 billion or 5.3%. The revenue increase was primarily due to an increase of \$705 million in taxes; \$290 million from income taxes, \$236 million from sales taxes and \$179 million in motor vehicle and other taxes. Overall, the increase in expenses was primarily due to increases in education of \$522 million, health and mental hygiene of \$386 million, and public safety of \$176 million.

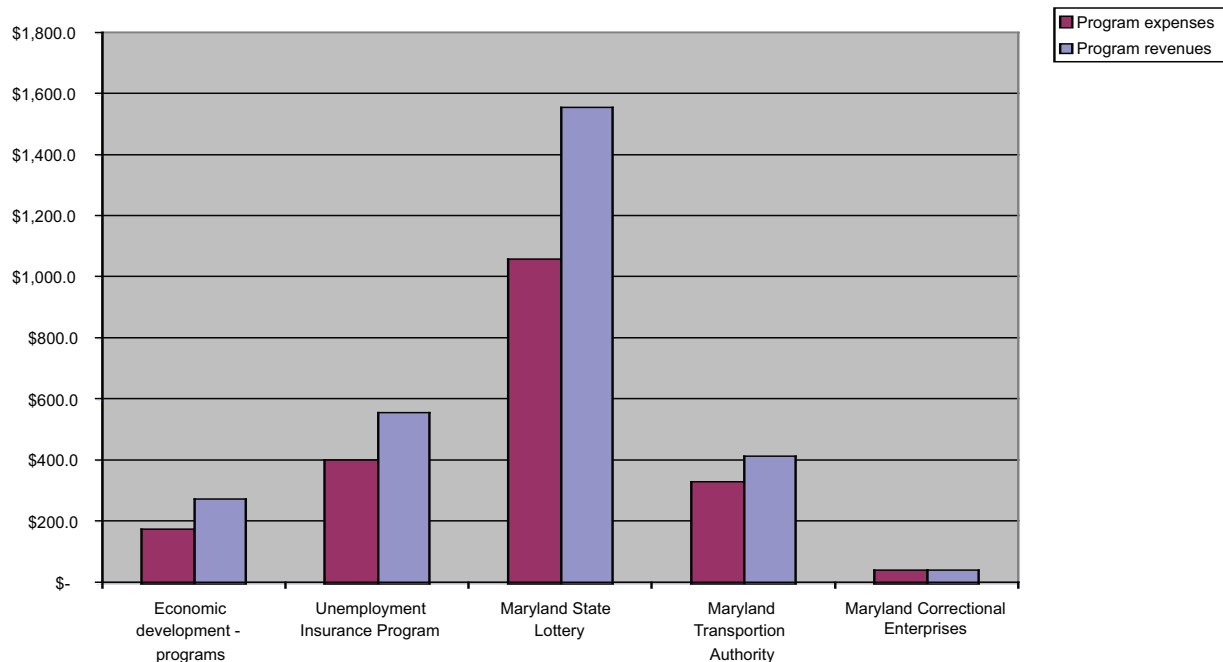
Business-type Activities

Business-type activities increased the State's net assets by \$837 million before transfers of \$458 million to governmental activities. Key elements of this increase are as follows:

- Lottery tickets sales increased \$75 million or 5.1% to \$1.6 billion. The increase to net assets before transfers to the general fund was \$483 million, an increase of \$4 million or 0.9% over the prior year. The increase in sales was attributable primarily to growth of the Pick four, Keno-Keno Bonus, Mega Millions, and Instant games.
- The change in net assets for the Unemployment Insurance Program was an increase of \$153 million compared to a net increase of \$177 million in the prior year. Although the net operating revenues remained greater than expenses, the Program had a decrease of \$36 million (6.7%) in charges for services over the prior year due to a reduction in the minimum tax rate for the calendar year 2006. In addition, benefit payments decreased \$28 million from the prior year due to a decrease in the unemployment rate.

- Loan programs had an increase of \$145 million in net assets over the prior year, primarily due to an increase in charges for services by the Water Quality Finance Administration for the Bay Restoration Fund of \$66 million.
- Charges for services of the Transportation Authority increased by \$40 million (12.3%) due to revenues for the Inter County Connector of \$60 million. Also, operating expenses increased by \$9 million (3%). The change in net assets was an increase of \$92 million compared to a net increase of \$47 million for the prior year.

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES (Expressed in Millions)



Financial Analysis of the State's Funds

As of the end of the current fiscal year, the State's governmental funds reported a combined fund balance of \$4.3 billion, an increase of \$1.1 billion from the prior year. The combined fund balance includes \$731 million in unreserved, undesignated and \$1.3 billion in unreserved, designated fund balance for the general fund. In addition, it includes \$220 million in unreserved, undesignated fund balance for the special revenue fund and a deficit of \$74 million for the other governmental funds. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been committed to: 1) liquidate contracts and purchase orders of the prior period, (\$779 million); 2) fund prepaid and inventory items, (\$471 million); 3) restricted revenue carry forwards, (\$9 million); and 4) reserve for various loans, construction projects, and debt service, (\$25 million). In addition, \$805 million of the reserved fund balance is in the "State Reserve Fund," and is set aside to meet future financial needs. The unreserved general fund, fund balance, plus the amount in the State Reserve Fund, is approximately 12.1% of the total annual expenditures in governmental funds, compared with 7.2% for the prior year.

General Fund

The general fund is the major operating fund of the State. At the end of the current fiscal year, the undesignated and designated fund balance of the general fund was \$2.0 billion, while total fund balance reached \$3.5 billion. The fund balance of the State's general fund increased by \$911 million during 2006, compared to an increase of \$1.1 billion for 2005. General fund revenues increased by \$829 million (4.5%) over the prior year, primarily due to increases in income, sales and other taxes of \$686 million (6.0%). Increases in taxes were supported by individual income taxes, which contributed about half of general fund revenues, and income tax withholdings, which were slightly ahead of wage and salary growth. In addition, capital gains, particularly from real estate, continued to support revenue growth. Sales tax revenues, which increased by 7.2%, were driven in large part by construction and utility-related sales. Federal revenues remained relatively steady, increasing by \$165 million (3.2%). Other revenues decreased by \$215 million (68.4%) due to decreased revenues transferred to the State for abandoned property, which experienced a one time increase last year due to a law change, and decreased miscellaneous collections.

General fund expenditures increased by \$980 million or 5.6 %. Although expenditures for most functions remained stable or decreased, expenditures for education, health and mental hygiene and public safety increased by \$409 million (8.1%), \$218 million (3.4%), and \$171 million (11.9%), respectively, due to continued increased funding for public school education, continued increases in Medicaid costs and increased funding for employees at correctional facilities and increased inmate health-care costs.

Transfers out were \$369 million compared to \$276 million for the prior year. This increase was due primarily to an increase in general fund transfers of the property transfer tax to the capital projects fund to support agricultural land preservation.

Special Revenue Fund

The Maryland Department of Transportation special revenue fund accounts for resources used for operation other than debt service and pension activities of the State's transportation activities. The fund balance of the Department's special revenue fund was \$383 million as of June 30, 2006, an increase of \$40 million (11.5%) from the prior fiscal year. This increase was primarily due to the decrease in transfers to the general fund of \$45 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget, and the final budget and the actual expenditures for the year are summarized as follows.

Overall, the change between the original and final general fund budget was an increase of \$182 million or 1.5%. Appropriations were increased for Medicaid costs, medical service costs for inmates and increased personnel costs for prisons and juvenile residential facilities. There was a decrease in Budget and Management appropriations which was primarily due to the reallocation of the original appropriation for salary cost of living adjustments from that department to the applicable State agencies. In addition, there was a reorganization to transfer a program from the Department of Housing and Community Development to an agency within the executive and administrative control function.

Major differences between the final budget and actual expenditures were the result of continued encumbrances for additions and improvements to buildings and information technology equipment for the Legislature, for various multi-year projects related to public school construction and for information technology and financing programs of the Departments of Business and Economic Development and the Environment. The actual general fund expenditures during the year were \$186 million less than the final general fund budget. Of this amount, \$31 million was returned to the general fund, and the remaining \$155 million was encumbered for future spending.

Capital Asset and Debt Administration

Capital assets

At June 30, 2006, the State had invested \$19.1 billion (net of accumulated depreciation) in a broad range of capital assets (see table below). Depreciation expense for the fiscal year totaled \$915 million (\$855 million for governmental activities and \$60 million for business-type activities). The increase in the State's investment in capital assets, net of depreciation expense, for the current fiscal year was 4.6% (4.6 % for governmental activities and 4.7% for business-type activities).

Capital Assets as of June 30, 2006
(Net of Depreciation, Expressed in Millions)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2006	2005	2006	2005	2006	2005
Land and improvements	\$ 2,657	\$ 2,495	\$ 121	\$ 110	\$ 2,778	\$ 2,605
Art and historical treasures	27	27			27	27
Construction in progress	2,680	2,753			2,680	2,753
Structures and improvements	3,369	3,256	27	29	3,396	3,285
Equipment	860	816	11	12	871	828
Infrastructure	7,996	7,463	1,410	1,348	9,406	8,811
Total	\$17,589	\$16,810	\$1,569	\$1,499	\$19,158	\$18,309

Major capital asset events during the current fiscal year included continued construction at the Baltimore Washington International Airport and for various transportation projects, the preservation of agricultural and open space land through the purchase of easements, construction of the House Office building and a parking garage, and construction of a new crime lab and building improvements in State prisons by the Departments of State Police and Public Safety.

Additional information on the State's capital assets can be found in footnote 10 of this report.

Long-term debt

The State is empowered by law to authorize, issue and sell general obligation bonds, which are backed by the full faith and credit of the State. The State also issues dedicated revenue bonds for the Department of Transportation and various business-type activities. The payment of principal and interest on revenue bonds comes solely from revenues received from the respective activities. This dedicated revenue debt is not backed by the State's full faith and credit.

At June 30, 2006, the State had outstanding bonds totaling \$8.8 billion. Of this amount \$4.9 billion were general obligation bonds, backed by the full faith and credit of the State. The remaining \$3.9 billion was secured solely by the specified revenue sources.

Outstanding Bonded Debt as of June 30,
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds (backed by the State)	\$4,868	\$4,512			\$4,868	\$4,512
Transportation Bonds (backed by specific revenues)	1,079	1,072			1,079	1,072
Revenue Bonds (backed by specific revenues)			\$2,883	\$2,825	2,883	2,825
Total	\$5,947	\$5,584	\$2,883	\$2,825	\$8,830	\$8,409

The total increase in bonded debt in the current fiscal year was 5.0% (7.9% increase related to general obligation bonds, and .7% and 2.1 % increase related to transportation and revenue bonds, respectively). The State's general obligation bonds are rated Aaa by Moody's and AAA by Standard and Poors and Fitch. During fiscal year 2006, the State issued general obligation debt totaling \$750 million at a premium of \$51 million. On August 10, 2006, (fiscal year 2007), the State issued general obligation bonds aggregating \$350 million for capital improvements.

State law limits the amount of Consolidated Transportation Bonds, dedicated revenue debt, that may be outstanding as of June 30 to the amount established in the budget, not to exceed \$2 billion. The aggregate principal amount of those bonds that was authorized to be outstanding as of June 30, 2006, was \$1.3 billion. This amount was in excess of the \$1.1 billion in Consolidated Transportation Bonds outstanding.

Additional information on the State's long-term debt can be found in footnote 11 of this report.

Economic Factors and Next Year's Budget

Unlike the last four years which were characterized by cost containment following the 2001 recession, the fiscal 2007 budget reflects an increase based on strong underlying economic growth fueled by low unemployment of 4.0% during 2006 and continued housing demand. The State's budget for fiscal year 2007 totals \$29.6 billion, a 12% increase over fiscal year 2006. The budget combines the State's continuing commitment to enhancing public schools with enhancements for higher education, health, economic development, public safety and other areas. It reflects the full restoration of statutory requirements for allocation of transfer tax revenue to land preservation and recreation programs and highway user revenues. The fiscal 2007 budget is balanced on a cash basis, and, as of June 30, 2006, nearly \$2.1 billion in cash has been set aside for future needs.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Accounting Division, Office of the Comptroller, P.O. Box 746, Annapolis, Maryland 21404.

BASIC FINANCIAL STATEMENTS

STATE OF MARYLAND

Statement of Net Assets

June 30, 2006

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 4,644,539	\$ 128,111	\$ 4,772,650	\$ 52,009
Investments	1,777,653	421,515	2,199,168	440,499
Endowment investments				220,400
Foundation investments				746,357
Inventories	92,214	12,645	104,859	10,665
Prepaid items	378,646		378,646	5,023
Deferred charges	8,660		8,660	5,752
Taxes receivable, net	907,865		907,865	
Intergovernmental receivables	858,852		858,852	
Tuition contracts receivable				261,344
Due from primary government				808,165
Other accounts receivable	625,252	185,083	810,335	359,307
Loans and notes receivable, net	16,660	988,004	1,004,664	76,875
Investment in direct financing leases		464,761	464,761	293,140
Other assets.	6,829	23,549	30,378	19,493
Collateral for lent securities	719,708		719,708	
Restricted assets:				
Cash and cash equivalents	55,799	1,395,789	1,451,588	59,101
Investments	3,758	1,325,323	1,329,081	40,677
Deferred charges		9,312	9,312	
Loans and notes receivable, net	6,674	1,339,217	1,345,891	
Other		25,361	25,361	26
Capital assets, net of accumulated depreciation:				
Land	2,657,515	120,847	2,778,362	129,256
Art and historical treasures	27,120		27,120	343
Structures and other improvements	3,368,611	26,713	3,395,324	2,864,906
Equipment	859,794	11,097	870,891	113,020
Infrastructure	7,995,672	1,410,622	9,406,294	324,508
Construction in progress	2,680,356		2,680,356	393,776
Total capital assets	17,589,068	1,569,279	19,158,347	3,825,809
Total assets	27,692,177	7,887,949	35,580,126	7,224,642

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Salaries payable	84,257		84,257	57,317
Vouchers payable	293,537		293,537	
Accounts payable and accrued liabilities	1,411,634	186,507	1,598,141	159,356
Internal balances	354,556	(354,556)		
Due to component units	808,165		808,165	
Accounts payable to political subdivisions	262,685		262,685	
Unearned revenue	25,084	15,808	40,892	159,035
Matured bonds and interest coupons payable	972		972	
Accrued insurance on loan losses		7,642	7,642	2,346
Accounts payable for local income taxes	1,480,180		1,480,180	
Other liabilities				2,060
Collateral obligations for lent securities	719,708		719,708	
Bonds and notes payable:				
Due within one year	473,985	455,095	929,080	79,782
Due in more than one year	5,817,342	2,427,760	8,245,102	1,278,277
Other noncurrent liabilities:				
Due within one year	328,398	54,318	382,716	110,334
Due in more than one year	1,935,749	219,712	2,155,461	715,897
Total liabilities	13,996,252	3,012,286	17,008,538	2,564,404
Net Assets				
Invested in capital assets, net of related debt	13,405,751	1,303,668	14,709,419	2,770,163
Restricted for:				
Human resources	8,650		8,650	
Debt service	134,054	68,998	203,052	5,416
Capital improvements and deposits	243	192,921	193,164	34,155
Higher education-nonexpendable				540,296
Higher education-expendable				444,540
Loans and notes receivable	6,674		6,674	77,142
Unemployment compensation benefits		1,130,892	1,130,892	
Loan programs		404,947	404,947	
Insurance programs		102,388	102,388	
Other		1,625	1,625	
Unrestricted	140,553	1,670,224	1,810,777	788,526
Total net assets	\$13,695,925	\$4,875,663	\$18,571,588	\$4,660,238

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Statement of Activities
For the Year Ended June 30, 2006
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating		Capital	Primary Government		
			Grants and Contributions	Grants and Contributions		Governmental Activities	Business-Type Activities	Component Units
Primary government -								
Governmental activities:								
General government	\$ 693,074	\$ 301,119	\$ 71,495			\$ (320,460)	\$ (320,460)	\$ (320,460)
Health and mental hygiene	6,588,057	353,211	2,923,573			(3,311,273)	(3,311,273)	(3,311,273)
Education	5,701,642	63,480	796,192			(4,841,970)	(4,841,970)	(4,841,970)
Aid for higher education	1,103,514					(1,103,514)	(1,103,514)	(1,103,514)
Human resources	1,622,945	33,026	970,235			(619,684)	(619,684)	(619,684)
Public safety	1,674,995	75,858	122,791	\$ 77		(1,476,269)	(1,476,269)	(1,476,269)
Transportation	2,382,539	583,346	70,827	789,619		(938,747)	(938,747)	(938,747)
Judicial	506,787	415,925	4,651			(86,211)	(86,211)	(86,211)
Labor, licensing and regulation	157,675	31,149	121,535			(4,991)	(4,991)	(4,991)
Natural resources and recreation	181,682	40,797	20,484	2,282		(118,119)	(118,119)	(118,119)
Housing and community development	217,544	14,704	190,304			(12,536)	(12,536)	(12,536)
Environment	84,973	29,512	26,895			(28,566)	(28,566)	(28,566)
Agriculture	56,706	13,716	3,781	1,773		(37,436)	(37,436)	(37,436)
Business and economic development	57,093	1,017	537			(55,539)	(55,539)	(55,539)
Intergovernmental grants and revenue sharing	979,450					(979,450)	(979,450)	(979,450)
Interest	317,722					(317,722)	(317,722)	(317,722)
Total governmental activities	22,326,398	1,956,860	5,323,300	793,751		(14,252,487)	(14,252,487)	(14,252,487)
Business-type activities:								
Economic development - insurance programs	11	6,685				\$ 6,674	\$ 6,674	6,674
Economic development - general loan programs	19,129	46,331				27,202	27,202	27,202
Economic development - water quality loan programs	26,045	100,278		41,710		115,943	115,943	115,943
Economic development - housing loan programs	131,420	78,801				(52,619)	(52,619)	(52,619)
Unemployment insurance program	403,776	541,386	15,054			152,664	152,664	152,664
Maryland State Lottery	1,061,295	1,560,906				499,611	499,611	499,611
Maryland Transportation Authority	334,905	404,446	11,966			81,507	81,507	81,507
Maryland Correctional Enterprises	41,544	42,823				1,279	1,279	1,279
Total business-type activities	2,018,125	2,781,656	27,020	41,710		832,261	832,261	832,261
Total primary government	\$24,344,523	\$4,738,516	\$5,350,320	\$835,461		(14,252,487)	832,261	(13,420,226)

Component units:				
Higher education	\$3,571,466	\$1,622,285	\$1,094,914	\$142,263
Maryland Stadium Authority	61,432	33,958	6,148	3,004
Other component units	142,460	158,771	25	500
Total component units	\$3,775,358	\$1,815,014	\$1,101,087	\$145,767
General revenues:				
Income taxes				7,119,633
Sales and use taxes				3,385,391
Motor vehicle taxes				1,983,439
Other taxes				2,332,968
Grants and contributions not restricted to specific programs				927,436
Unrestricted investment earnings			251,388	103,992
Additions to permanent endowments				127
Transfers				(457,850)
Total general revenues, additions to permanent endowments, and transfers				15,530,669
Change in net assets				1,278,182
Net assets - beginning of the year				12,417,743
Net assets - end of the year				\$13,695,925
				\$4,875,663
				\$18,571,588
				\$4,660,238
				\$1,031,555
				318,065
				4,342,173
				\$4,660,238

STATE OF MARYLAND

Balance Sheet
Governmental Funds
June 30, 2006
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$4,541,960		\$ 102,579	\$ 4,644,539
Cash and cash equivalents - restricted		\$ 49,430	938	50,368
Cash with fiscal agent - restricted			5,431	5,431
Investments	1,777,653			1,777,653
Investments - restricted			3,758	3,758
Prepaid items	326,442	52,204		378,646
Taxes receivable, net	801,514	91,773	14,578	907,865
Intergovernmental receivables	624,076	234,776		858,852
Other accounts receivable	579,746	45,170	336	625,252
Due from other funds	48,014	271,560	323,864	643,438
Inventories	24,058	68,156		92,214
Loans and notes receivable, net	1,373	7,748	7,539	16,660
Loans and notes receivable - restricted			6,674	6,674
Collateral for lent securities	719,708			719,708
Total assets	\$9,444,544	\$820,817	\$ 465,697	\$10,731,058
Liabilities:				
Salaries payable	\$ 69,658	\$ 14,599		\$ 84,257
Vouchers payable	198,783	30,427	\$ 64,327	293,537
Accounts payable and accrued liabilities	1,062,179	243,774	25,785	1,331,738
Due to other funds	981,922	16,072		997,994
Due to component units	808,165			808,165
Accounts payable to political subdivisions	1,649,961	79,960	12,944	1,742,865
Deferred revenue	331,381	52,798	101	384,280
Matured bonds and interest coupons payable			972	972
Accrued self-insurance costs	90,233			90,233
Collateral obligations for lent securities	719,708			719,708
Total liabilities	5,911,990	437,630	104,129	6,453,749
Fund balances:				
Reserved for:				
State reserve fund	805,495			805,495
Encumbrances	325,029	37,025	417,294	779,348
Prepaid items and inventories	350,500	120,360		470,860
Loans and notes receivable	996	5,822	13,775	20,593
Construction projects		243		243
Restricted revenues	8,650			8,650
Debt service			4,497	4,497
Unreserved:				
Designated	1,311,018			1,311,018
Undesignated, (deficit) reported in:				
General fund	730,866			730,866
Special revenue fund		219,737		219,737
Non-major debt service funds			122,456	122,456
Non-major capital projects fund			(196,454)	(196,454)
Total fund balance	3,532,554	383,187	361,568	4,277,309
Total liabilities and fund balances	\$9,444,544	\$820,817	\$ 465,697	\$10,731,058

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

**Reconciliation of the Governmental Funds' Fund Balance
to the Statement of Net Assets, Net Assets' Balance**

June 30, 2006

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Net Assets (pages 23-24)

differ from the amounts for the governmental funds' fund balances because:

Amount in governmental funds, fund balance (page 26)	\$4,277,309
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	17,589,063
Taxes and other receivables that will not be available to pay for current-period expenditures and, therefore, are deferred in the funds	359,197
Accrued interest payable on bonds and capital leases are not liquidated with current financial resources in the governmental funds	(115,396)
Other assets not available to pay for current period expenditures	7,447
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
General Obligation Bonds	(4,919,564)
Deferred charges to be amortized over the life of the debt	67,742
Premiums to be amortized over the life of the debt	(284,205)
Transportation Bonds	(1,079,340)
Deferred charges to be amortized over the life of the debt	8,841
Premiums to be amortized over the life of the debt	(76,757)
Accrued self-insurance costs	(199,487)
Accrued annual leave	(264,954)
Pension liabilities	(436,793)
Other long term liabilities	(424,446)
Obligations under capital leases	(519,592)
Obligations under capital leases with component units	(293,140)
Net assets of governmental activities (page 23)	<u>\$13,695,925</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
**Statement of Revenues, Expenditures
and Changes in Fund Balances**
Governmental Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ 7,108,573			\$ 7,108,573
Sales and use taxes	3,382,851			3,382,851
Motor vehicle taxes and fees		\$1,983,439		1,983,439
Other taxes	1,748,366		\$ 584,602	2,332,968
Other licenses and fees	808,617			808,617
Charges for services	597,719	372,626		970,345
Revenues pledged as security for bonds		70,593		70,593
Interest and other investment income	201,783	8,375	9,451	219,609
Federal revenue	5,258,137	860,446		6,118,583
Other	99,236	9,354	99	108,689
Total revenues	19,205,282	3,304,833	594,152	23,104,267
Expenditures:				
Current:				
General government	736,694			736,694
Health and mental hygiene	6,547,288			6,547,288
Education	5,433,590		221,054	5,654,644
Aid to higher education	918,531		184,983	1,103,514
Human resources	1,622,922			1,622,922
Public safety	1,606,314			1,606,314
Transportation		1,121,714		1,121,714
Judicial	490,861			490,861
Labor, licensing and regulation	154,607			154,607
Natural resources and recreation	165,439			165,439
Housing and community development	215,940			215,940
Environment	83,793			83,793
Agriculture	64,044			64,044
Business and economic development	56,374			56,374
Intergovernmental grants and revenue sharing ..	553,941	821,038	187,560	1,562,539
Capital outlays		1,432,833	106,094	1,538,927
Debt service:				
Principal retirement			485,635	485,635
Interest			280,278	280,278
Bond issuance costs	366		1,412	1,778
Total expenditures	18,650,704	3,375,585	1,467,016	23,493,305
Excess (deficiency) of revenues over (under) expenditures	554,578	(70,752)	(872,864)	(389,038)
Other financing sources (uses):				
Capital leases	71,798	49,399		121,197
Other long-term liabilities		5,320		5,320
Bonds issued		100,000	750,000	850,000
Bond premium		120	54,787	54,907
Transfers in	653,163	229,282	251,408	1,133,853
Transfers out	(368,942)	(273,768)	(33,293)	(676,003)
Total other sources of financial resources	356,019	110,353	1,022,902	1,489,274
Net change in fund balances	910,597	39,601	150,038	1,100,236
Fund balances, beginning of the year	2,621,957	343,586	211,530	3,177,073
Fund balances, end of the year	\$ 3,532,554	\$ 383,187	\$ 361,568	\$ 4,277,309

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

**Reconciliation of the Statement of the Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006
(Expressed in Thousands)**

Amounts reported for governmental activities in the Statement of Activities (pages 24-25) are different from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because of the following:

Net change in fund balances - total governmental funds (page 28)		\$1,100,236
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital outlays	\$1,644,936	
Depreciation expense	(855,459)	789,477

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.

Net loss on disposals and trade-ins	(10,746)	(10,746)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:

Deferred revenues for taxes are recognized, net of revenue already recognized in the prior year	13,600	
Deferred revenues for other revenues are recognized, net of revenue already recognized in the prior year	(5,130)	8,470

The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long term debt and related items.

Debt issued, General Obligation Bonds	(801,094)	
Debt issued, Transportation Bonds	(103,813)	
Capital lease financing	(121,197)	
Other long-term financing	(4,988)	
Premiums, discounts and issuance costs	29,108	
Principal repayments:		
General Obligation Bonds	393,355	
Transportation Bonds	92,280	
Capital leases	52,922	
Other long-term financing	10,255	(453,172)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences	(19,987)	
Self-insurance	(12,272)	
Deferred charges	123	
Net pension obligation	(157,175)	
Accrued interest	(9,796)	
Other long term liabilities	43,024	(156,083)

Change in net assets of governmental activities (page 25)		\$1,278,182
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The accompanying notes to the financial statements are an integral part of this financial statement.



STATE OF MARYLAND
ENTERPRISE FUND FINANCIAL STATEMENTS

Major Funds

Economic Development Loan Programs

This fund includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.

Unemployment Insurance Program

This fund reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment assessments collected from employers, Federal revenue received and remittance of benefits to the unemployed.

Maryland State Lottery Agency

This fund accounts for the operation of the State Lottery.

Maryland Transportation Authority

This fund accounts for the activity of the Maryland Transportation Authority, which is responsible for the operation and maintenance of toll roads, bridges and tunnels in the State.

Non-major Funds

Other Enterprise Funds

Individual non-major enterprise funds are presented in the combining section following the footnotes.

STATE OF MARYLAND

Statement of Fund Net Assets

Enterprise Funds

June 30, 2006

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Assets -						
Current assets:						
Cash and cash equivalents	\$ 2		\$ 1,716	\$ 126,383	\$ 10	\$ 128,111
Investments	164,920			196,927		361,847
Other accounts receivable	13,161	\$ 122,057	23,196	19,948	6,721	185,083
Due from other funds	243,137	1,275	61,925	451	114,572	421,360
Inventories			3,197	1,668	7,780	12,645
Loans and notes receivable, net	53,989				150	54,139
Investment in direct financing leases				36,492		36,492
Other assets	70		31		932	1,033
Current restricted assets:						
Cash and cash equivalents	252,225			109,580		361,805
Cash on deposit with U.S. Treasury		1,033,984				1,033,984
Investments	445,818		41,632	123,688		611,138
Loans and notes receivable, net . . .	50,399					50,399
Other accounts receivable	24,903					24,903
Total current assets	1,248,624	1,157,316	131,697	615,137	130,165	3,282,939
Non-current assets:						
Investments	58,688				980	59,668
Due from other funds				9,324		9,324
Loans and notes receivable, net	933,425				440	933,865
Investment in direct financing leases				428,269		428,269
Other assets				22,516		22,516
Restricted non-current assets:						
Investments	542,566		171,619			714,185
Deferred charges	9,312					9,312
Loans and notes receivable, net . . .	1,288,818					1,288,818
Other accounts receivable	458					458
Capital assets, net of accumulated depreciation:						
Land				120,847		120,847
Structures and improvements				26,267	446	26,713
Equipment	95		1,549	4,379	5,074	11,097
Infrastructure				1,410,535	87	1,410,622
Total non-current assets	2,833,362		173,168	2,022,137	7,027	5,035,694
Total assets	4,081,986	1,157,316	304,865	2,637,274	137,192	8,318,633

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Liabilities -						
Current liabilities:						
Accounts payable and accrued liabilities	64,263	26,424	31,781	62,423	1,616	186,507
Due to other funds			41,717	34,411		76,128
Accrued insurance on loan losses ...	141				7,501	7,642
Other liabilities	10,070		41,974	1,213	1,061	54,318
Unearned revenue	28		2,475	11,801	1,504	15,808
Revenue bonds payable - current ...	411,320			43,775		455,095
Total current liabilities	485,822	26,424	117,947	153,623	11,682	795,498
Non-current liabilities:						
Other liabilities	25,878		159,906	32,315	1,613	219,712
Revenue bonds payable	1,706,420			721,340		2,427,760
Total non-current liabilities	1,732,298		159,906	753,655	1,613	2,647,472
Total liabilities	2,218,120	26,424	277,853	907,278	13,295	3,442,970
Net Assets:						
Invested in capital assets, net of related debt	95		293	1,297,673	5,607	1,303,668
Restricted for:						
Debt service				68,998		68,998
Capital improvements				192,921		192,921
Unemployment compensation benefits		1,130,892				1,130,892
Loan programs	404,947					404,947
Insurance programs					102,388	102,388
Other				1,625		1,625
Unrestricted	1,458,824		26,719	168,779	15,902	1,670,224
Total net assets	\$1,863,866	\$1,130,892	\$ 27,012	\$1,729,996	\$123,897	\$4,875,663

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

**Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)**

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Operating revenues:						
Lottery ticket sales			\$1,560,906			\$1,560,906
Charges for services and sales	\$ 82,460	\$ 507,540		\$ 370,540	\$ 44,849	1,005,389
Loan and grant recoveries	11,980	(8,744)				3,236
Unrestricted interest on loan income	24,944				553	25,497
Restricted interest on loan income ..	77,233					77,233
Other	10,475			11,966	2	22,443
Total operating revenues	207,092	498,796	1,560,906	382,506	45,404	2,694,704
Operating expenses:						
Prizes and claims			904,078			904,078
Commissions and bonuses			102,705			102,705
Cost of sales and services			21,839		33,852	55,691
Operation and maintenance of facilities	4,261			230,045		234,306
General and administrative	26,281		32,069	11,355	9,404	79,109
Benefit payments		403,776				403,776
Capital grant distributions	14,571					14,571
Restricted interest expense	93,793					93,793
Depreciation and amortization	5,389		560	58,038	1,178	65,165
Provision for (reduction in) insurance on loan losses	12,247				(2,879)	9,368
Other	14,966					14,966
Total operating expenses	171,508	403,776	1,061,251	299,438	41,555	1,977,528
Operating income	35,584	95,020	499,655	83,068	3,849	717,176
Non-operating revenues (expenses):						
Unrestricted interest and other investment income	10,676		(16,974)	10,732		4,434
Restricted interest and other investment income	18,318	42,590		33,906	4,100	98,914
Interest expense			(44)	(35,467)		(35,511)
Federal grants and distributions		15,054				15,054
Other	(5,086)				4	(5,082)
Total non-operating revenues (expenses)	23,908	57,644	(17,018)	9,171	4,104	77,809
Income before contributions and transfers	59,492	152,664	482,637	92,239	7,953	794,985
Capital contributions	41,710					41,710
Transfers in	50,995					50,995
Transfers out	(6,874)		(500,971)		(1,000)	(508,845)
Change in net assets	145,323	152,664	(18,334)	92,239	6,953	378,845
Total net assets - beginning of the year	1,718,543	978,228	45,346	1,637,757	116,944	4,496,818
Total net assets - end of the year	\$1,863,866	\$1,130,892	\$ 27,012	\$1,729,996	\$123,897	\$4,875,663

The accompanying notes to the financial statements are an integral part of this financial statement.



STATE OF MARYLAND

Statement of Cash Flow
Enterprise Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Cash flows from operating activities:						
Receipts from customers	\$ 508,824	\$ 519,698	\$1,558,029	\$ 415,817	\$ 43,439	\$ 3,045,807
Payments to suppliers	(2,031)		(42,842)	(219,382)	(28,313)	(292,568)
Payments to employees	(11,623)		(11,263)	(74,141)	(14,322)	(111,349)
Other receipts (payments)	(561,881)	(409,391)	(100,850)	35,000	(3,331)	(1,040,453)
Lottery prize payments			(903,244)			(903,244)
Net cash provided (used) by operating activities	(66,711)	110,307	499,830	157,294	(2,527)	698,193
Cash flows from non-capital financing activities:						
Proceeds from the sale of revenue bonds	664,539					664,539
Payment on revenue bonds	(613,878)			(19,465)		(633,343)
Interest payments				(9,873)		(9,873)
Transfers in	56,141					56,141
Transfers out	(7,874)		(497,560)		(1,000)	(506,434)
Capital contributions	41,710					41,710
Grants	15	15,054				15,069
Lottery installment payments			(45,868)			(45,868)
Other	(4,264)	(1,663)				(5,927)
Net cash provided (used) by noncapital financing activities ..	136,389	13,391	(543,428)	(29,338)	(1,000)	(423,986)
Cash flows from capital and related financing activities:						
Proceeds from notes payable and revenue bonds				23,760		23,760
Principal paid on notes payable and revenue bonds				(7,575)		(7,575)
Interest payments			(44)	(24,751)		(24,795)
Acquisition of capital assets	(64)			(118,371)	(698)	(119,133)
Payment of capital lease obligations			(417)			(417)
Net cash provided (used) by capital and related financing activities	(64)		(461)	(126,937)	(698)	(128,160)
Cash flows from investing activities:						
Purchase of investments	(1,014,387)		(651)	(2,051,939)		(3,066,977)
Proceeds from maturity and sale of investments	907,224		45,869	2,020,433		2,973,526
Interest on investments	22,304	42,590		18,978	4,225	88,097
Acquisition of assets leased in direct financing leases				(43,314)		(43,314)
Receipts from investment in direct financing leases				76,561		76,561
Net cash provided (used) by investing activities	(84,859)	42,590	45,218	20,719	4,225	27,893
Net change in cash and cash equivalents	(15,245)	166,288	1,159	21,738		173,940
Balance - beginning of the year ..	267,472	867,696	557	214,225	10	1,349,960
Balance - end of the year	\$ 252,227	\$1,033,984	\$ 1,716	\$ 235,963	\$ 10	\$ 1,523,900

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 35,584	\$ 95,020	\$499,655	\$ 83,068	\$ 3,849	\$717,176
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	4,064		560	58,038	1,178	63,840
Interest on bonds	2,584					2,584
Deferred prize payments			651			651
Effect of changes in non-cash operating assets and liabilities:						
Other accounts receivable	6,195	14,177	(2,114)	960	(1,746)	17,472
Intergovernmental receivables						
Due from other funds	(91,858)	(1,275)	1,837	563	(2,900)	(93,633)
Inventories			85	(81)	(305)	(301)
Loans and notes receivable	(15,689)				54	(15,635)
Other assets	(1,970)		12		660	(1,298)
Accounts payable and accrued liabilities	227	2,385	(165)	(13,375)	79	(10,849)
Due to other funds	(398)			24,122		23,724
Accrued insurance on loan losses ...					(3,750)	(3,750)
Other liabilities	(5,452)		72	312	14	(5,054)
Unearned revenue	2		(763)	3,687	340	3,266
Total adjustments	(102,295)	15,287	175	74,226	(6,376)	(18,983)
Net cash provided (used) by operating activities	\$ (66,711)	\$110,307	\$499,830	\$157,294	\$(2,527)	\$698,193
Noncash transactions (amounts expressed in thousands):						
Loan Programs -						
Loan loss forgiveness	\$ (1,170)					
Lottery Agency - Unrealized loss on investments			\$(16,974)			
Transportation Authority - Additions to capital assets				\$ 15,983		

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Agency Funds
Assets:			
Cash and cash equivalents	\$ 1,423,111		\$ 68,996
Investments:			
U.S. Treasury and agency obligations	843,161	\$1,215,598	
Repurchase agreements		333,244	
Bonds	1,311,880		
Corporate equity securities	7,904,686		
Commercial paper		79,191	
Bankers acceptances		4,000	
Mortgage related securities	2,150,665		
Mutual funds	19,961,001	107,834	
Guaranteed investment contracts	550,008		
Real estate	882,964		
Annuity contracts	393,238		
Investment held by borrowers under securities lent with cash collateral	2,110,139		
Total investments	36,107,742	1,739,867	
Taxes receivable, net			210,269
Accounts receivable from state treasury			1,593,114
Other receivables	729,072	1,676	2,350
Collateral for lent securities	2,148,668		
Total assets	40,408,593	1,741,543	1,874,729
Liabilities:			
Accounts payable to state treasury			154,219
Accounts payable and accrued liabilities	1,642,757	7,674	137,916
Accounts payable to political subdivisions			1,582,594
Collateral obligation for lent securities	2,148,668		
Total liabilities	3,791,425	7,674	1,874,729
Net assets:			
Held in trust for:			
Pension benefits (A schedule of funding progress for each of the plans may be found on pages 87 & 88)	34,478,915		
Deferred compensation benefits	2,138,253		
Local Government Investment Pool participants		1,733,869	
Total net assets	\$36,617,168	\$1,733,869	\$ -

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund
Additions:		
Contributions:		
Employers	\$ 317,557	
Members	362,166	\$4,797,153
Sponsors	435,601	
Total contributions	1,115,324	4,797,153
Investment earnings:		
Net increase in fair value of investments	2,889,509	
Interest	373,759	74,527
Dividends	200,633	
Real estate operating net earnings	33,496	
Net change in annuity reserves	3,028	
Total investment earnings	3,500,425	74,527
Less: investment expense	144,808	
Net investment earnings	3,355,617	74,527
Total additions	4,470,941	4,871,680
Deductions:		
Benefit payments	1,967,935	
Distributions to participants		74,527
Redemptions (unit transactions at \$1.00 per unit)		4,836,250
Refunds	18,741	
Administrative expenses	24,841	
Total deductions	2,011,517	4,910,777
Change in net assets	2,459,424	(39,097)
Net assets - beginning of the year	34,157,744	1,772,966
Net assets - end of the year	\$36,617,168	\$1,733,869

The accompanying notes to the financial statements are an integral part of this financial statement.



STATE OF MARYLAND
COMPONENT UNIT FINANCIAL STATEMENTS

Major Component Units

Higher Education

Higher education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and certain of their foundations. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single component unit. The financial information for certain foundations affiliated with the universities and colleges has not been included in this fund in accordance with GASB Statement No. 14 as amended by GASB Statement No. 39.

Maryland Stadium Authority

The Maryland Stadium Authority was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State.

Non-major Component Units

Other Component Units

Non-major component units are presented individually in the combining section following the footnotes.

STATE OF MARYLAND

Combining Statement of Net Assets

Component Units

June 30, 2006

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Assets:				
Cash and cash equivalents	\$ 45,518	\$ 229	\$ 6,262	\$ 52,009
Investments	4,003		436,496	440,499
Endowment investments	220,400			220,400
Foundation investments	746,357			746,357
Tuition contracts receivable	78,559		182,785	261,344
Other accounts receivable	336,463	8,467	14,377	359,307
Due from primary government	760,156	7,870	40,139	808,165
Inventories	10,665			10,665
Prepaid items	5,023			5,023
Deferred charges	1,584	4,168		5,752
Loans and notes receivable, net	72,312	4,563		76,875
Investments in direct financing leases		283,787	9,353	293,140
Other assets	16,004	1	3,488	19,493
Restricted assets:				
Cash and cash equivalents	59,026	75		59,101
Investments	12,016	12,567	16,094	40,677
Other	26			26
Capital assets, net of accumulated depreciation:				
Land	123,474		5,782	129,256
Art and historical treasures	343			343
Structures and improvements	2,622,580	221,027	21,299	2,864,906
Infrastructure	111,651		1,369	113,020
Equipment	315,040	1,001	8,467	324,508
Construction in progress	392,909		867	393,776
Total assets	5,934,109	543,755	746,778	7,224,642
Liabilities:				
Salaries payable	57,317			57,317
Accounts payable and accrued liabilities	143,371	5,372	10,613	159,356
Unearned revenue	135,526	11,648	11,861	159,035
Accrued insurance on loan losses			2,346	2,346
Other liabilities	1,832		228	2,060
Bonds and notes payable:				
Due within one year	63,517	13,940	2,325	79,782
Due in more than one year	983,891	282,330	12,056	1,278,277
Other noncurrent liabilities:				
Due within one year	77,725	434	32,175	110,334
Due in more than one year	124,448	657	590,792	715,897
Total liabilities	1,587,627	314,381	662,396	2,564,404

	Higher Education	Stadium Authority	Other Component Units	Total
Net Assets:				
Invested in capital assets, net of related debt	2,533,672	212,704	23,787	2,770,163
Restricted:				
Debt service		1,377		1,377
Capital improvements and deposits		11,115	7,119	18,234
Nonexpendable:				
Scholarships and fellowships	199,151			199,151
Research	6,356			6,356
Other	334,789			334,789
Expendable:				
Debt service	4,039			4,039
Capital projects	15,921			15,921
Loans and notes receivable	77,142			77,142
Scholarships and fellowships	115,589			115,589
Research	97,238			97,238
Other	231,713			231,713
Unrestricted	730,872	4,178	53,476	788,526
Total net assets	\$4,346,482	\$229,374	\$84,382	\$4,660,238

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Combining Statement of Activities

Component Units

For the Year Ended June 30, 2006

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Expenses:				
General and administrative		\$ 6,285	\$ 12,771	\$ 19,056
Operation and maintenance of facilities	\$ 272,525	18,606	77,320	368,451
Provision for insurance on loan losses, net			(2,397)	(2,397)
Instruction	945,598			945,598
Research	747,527			747,527
Public service	125,126			125,126
Academic support	279,141			279,141
Student services	142,225			142,225
Institutional support	339,825			339,825
Scholarships and fellowships	72,139			72,139
Tuition benefits			48,746	48,746
Auxiliary	390,883			390,883
Hospitals	98,266			98,266
Interest on long-term debt	46,752	19,218	1,756	67,726
Depreciation and amortization	2,088	13,218	4,073	19,379
Foundation expenses	102,992			102,992
Other	6,379	4,105	191	10,675
Total expenses	3,571,466	61,432	142,460	3,775,358
Program revenues:				
Charges for services:				
Student tuition and fees (net of \$165,451 in allowances)	876,760			876,760
Auxiliary enterprises (net of \$20,803 in allowances)	417,241			417,241
Restricted investment earnings	80,471	1,958	240	82,669
Other	247,813	32,000	158,531	438,344
Total charges for services	1,622,285	33,958	158,771	1,815,014
Operating grants and contributions	1,094,914	6,148	25	1,101,087
Capital grants and contributions	142,263	3,004	500	145,767
Total program revenues	2,859,462	43,110	159,296	3,061,868
Net program revenue (expense)	(712,004)	(18,322)	16,836	(713,490)
General revenues:				
Grants and contributions not restricted to specific programs	927,436			927,436
Unrestricted investment earnings	70,649	148	33,195	103,992
Additions to permanent endowments	127			127
Total general revenues and additions to permanent endowments	998,212	148	33,195	1,031,555
Change in net assets	286,208	(18,174)	50,031	318,065
Net assets - beginning of the year	4,060,274	247,548	34,351	4,342,173
Net assets - end of the year	\$4,346,482	\$229,374	\$84,382	\$4,660,238

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

**Index for
Notes to the Financial Statements
For the Year Ended June 30, 2006**

Note 1 - Summary of Significant Accounting Policies	46
Note 2 - Significant Accounting Policies – Assets, Liabilities and Net Assets or Equity	48
Note 3 - Deposits with Financial Institutions and the U.S. Treasury and Investments	52
Note 4 - Receivables	60
Note 5 - Deferred Revenue	60
Note 6 - Loans and Notes Receivable and Investment in Direct Financing Leases	61
Note 7 - Restricted Assets	62
Note 8 - Interfund Receivables and Payables	63
Note 9 - Interfund Transfers	63
Note 10 - Capital Assets	64
Note 11 - Long-Term Obligations	65
Note 12 - Insurance	74
Note 13 - Fund Equity	75
Note 14 - Segment Information	75
Note 15 - Retirement Benefits	76
Note 16 - Commitments	81
Note 17 - Contingencies	82
Note 18 - Tobacco Settlement	82
Note 19 - Landfill Closure and Postclosure Care Costs	82

Notes to Required Supplementary Information

Note 1 - Budgeting and Budgetary Control	89
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STATE OF MARYLAND

Notes to the Financial Statements For the year ended June 30, 2006

1. Summary of Significant Accounting Policies:

A. Reporting Entity

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the ability of the governing body to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units column of the government-wide financial statements includes the financial data of the following major component units. Individual statements are presented for each.

Higher Education (Proprietary Fund Type) – Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and certain of their foundations. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The universities and colleges are funded through State appropriations, tuition, Federal grants, and private donations and grants. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single discretely presented component unit. Some of the financial information for foundations affiliated with the universities and colleges has not been included with the financial information of the universities and colleges in accordance with the requirements of GASB Statement No. 14 as amended by GASB Statement No. 39.

Maryland Stadium Authority (Proprietary Fund Type) - The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State. The Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and the Treasurer) have approved all of the projects and bond issuances of the Authority.

The non-major component units are comprised of the following proprietary fund type entities.

The Maryland Food Center Authority (Authority) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight members are appointed by the Governor. The Authority was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

The Maryland Industrial Development Financing Authority (Authority) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. The Authority provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

The Maryland Prepaid College Trust (Trust) is directed by the College Savings Plans of Maryland Board. The Board consists of five State officials and five members of the public appointed by the Governor. The Trust provides a method for Maryland citizens to save money for college tuition.

Complete financial statements of the individual component units and the Local Government Investment Pool of the Investment Trust Fund may be requested from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

Related Organizations

The Maryland Economic Development Corporation (MEDCO), Injured Workers' Insurance Fund and the Maryland Automobile Insurance Fund are related organizations of the State. The Governor appoints a majority of the Board of Directors, but the State does not have the ability to impose its will on the organizations, and there is no financial benefit/burden relationship.

As of June 30, 2006, the Economic Development Loan Programs, major enterprise funds, had transactions with MEDCO that included loans, investments and grants totaling \$47,506,000.

B. Government-wide and Fund Financial Statements

The State's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the primary government and its component units. Interfund activity has been eliminated from these statements except for certain charges for services between activities that would distort the direct costs and program revenues reported for the applicable functions. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Expenses reported for functional activities include allocated indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund, other than the agency funds, financial statements. The agency funds are reported using the accrual basis of accounting, but have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The State reports the following major governmental funds:

General Fund:

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, health and mental hygiene, education (other than higher education institutions), human resources, public safety, judicial, labor, licensing and regulation, natural resources and recreation, housing and community development, environment, agriculture, and business and economic development. Resources obtained from Federal grants and used for activities accounted for in the general fund, consistent with applicable legal requirements, are recorded in the general fund.

Special Revenue Fund, Maryland Department of Transportation:

Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue fund. The Maryland Department of Transportation special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation, including construction or improvement of transportation facilities and mass transit operations.

Enterprise Funds:

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The enterprise funds differ from governmental funds in that the focus is on the flow of economic resources, which, together with the maintenance of equity, is an important financial indicator.

The major enterprise funds are as follows.

1. The Economic Development Loan Programs includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.
2. The Unemployment Insurance Program reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment taxes collected from employers, Federal revenue received and remittance of benefits to the unemployed.
3. The Maryland State Lottery Agency operates the State Lottery.
4. The Maryland Transportation Authority is responsible for the operation and maintenance of toll roads, bridges and tunnels in the State.

Fiduciary Funds:

1. The Pension and Other Employee Benefits Trust Fund includes the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Fund reflects the transactions, assets, liabilities and net assets of the plans administered by the State and is accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is reported as of and for its period ended December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a), and 401(k). Amounts deferred are invested and are not subject to Federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.
2. The Investment Trust Fund reflects the transactions, assets, liabilities and net assets of the Maryland Local Government Investment Pool and is accounted for using the flow of economic resources measurement focus.
3. The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of litigants, patient and prisoner accounts, various taxes collected by the State for distribution to political subdivisions and amounts withheld from employees' payroll.

D. Implementation of New Pronouncements:

Effective July 1, 2005, the State has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34*, which clarifies the meaning of a legally enforceable enabling legislation restriction for the purpose of restricting net assets; and GASB Statement No. 47, *Accounting for Termination Benefits*. The only impact from the implementation of these standards on the State's financial position was to eliminate certain net asset restrictions due to enabling legislation.

E. New Pronouncements:

In June 2004, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued by the GASB. In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Both of these Statements are effective for periods beginning after December 15, 2006. The State will implement them as of the effective date. Although the assessment of the impact of GASB Statement No. 45 is not completed, it is expected to have a material effect on the State's financial position.

2. Significant Accounting Policies - Assets, Liabilities and Net Assets or Equity:

A. All Funds:

Deposits with Financial Institutions and Investments:

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise, fiduciary funds and component units are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis primarily in repurchase agreements, U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Certificates of deposits of Maryland financial institutions.
- Banker's acceptances.
- Money market mutual funds.
- Commercial paper.
- Maryland Local Government Investment Pool.

In addition, bond sale proceeds may be invested in Municipal securities. A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping.

Investments are recorded at fair value and changes in fair value are recognized as revenue or expenses. Fair values are based on quotations from national security exchanges and security pricing services, or by the respective fund managers for securities which are not actively traded. Investments maturing within 90 days of purchase are reported in the financial statements as cash and cash equivalents.

The State Retirement and Pension System of Maryland (System), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, is permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the System. The law further provides that no more than 25% of the assets that are invested in common stocks may be invested in nondividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the System. The System is authorized by Section 21-116 of the State Personnel and Pensions Article to establish and maintain the investment policy manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to, common stock, preferred stock, convertible securities, warrants and similar rights of U.S. and non-U.S. companies; private equity - direct/partnership/funds; real estate investment trusts; commingled real estate funds; directly owned real estate; fixed income obligations of the U.S. government and its states and local subdivisions, non-U.S. governments and their states and local subdivisions, U.S. and non-U.S. companies, and supra-national organizations; futures and options; foreign exchange forward and future contracts and options; equity index futures; and equity options.

Investments of the System and the Maryland Transit Administration (MTA) Pension Plan are stated at fair value. The investments of the MTA Pension Plan are held and invested on their behalf by the System. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of real estate investments which are based on estimated current values and independent appraisals. Fair value for private equity investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers.

State employees are offered participation in deferred compensation plans created in accordance with the Internal Revenue Code, Sections 401(a), 401(k), 403(b), and 457. The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans is responsible for the implementation, maintenance and administration of the Plans. The Board has appointed a private company as the Plans' administrator. Assets of the Plans are held in trusts for the exclusive benefit of participating employees and their beneficiaries. Investments of the Plans are stated at fair value. Fair value of the investments is valued at cost plus interest credited for fixed earnings investment contract pools and at fair value based on published quotations at each December 31, or net asset value as provided by the investment custodian, for variable earnings investments.

Retirement Costs:

Substantially all State employees participate in one of several State retirement systems. (See footnote 15.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement costs have been provided on the accrual basis, based upon actuarial valuations except that retirement expenditures for governmental funds represent amounts contributed by the State for the fiscal year.

Accrued Self-Insurance Costs:

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary funds and discretely presented component units on an accrual basis and the modified accrual basis for the governmental funds. The long-term accrued self-insurance costs of the governmental funds, which are not expected to be funded with current resources, are reported in the government-wide financial statements.

Annual Leave Costs:

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the government-wide financial statements. Liabilities for accumulated earned but unused annual leave applicable to proprietary funds and component units are reported in the respective funds.

Capital Assets:

Capital assets, which include property, plant, art and historical treasures, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure acquired prior to June 30, 1980, is not reported. Capital assets are defined by the government as assets with an initial, individual cost of more than \$50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	5-50
Building improvements	5-50
Vehicles	3-25
Office equipment	3-10
Computer equipment	3-10
Computer software	5-10
Infrastructure	10-50

Long-term Obligations:

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Resources:

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

Debt Refinancing:

The gain or loss associated with debt refinanced is deferred and amortized to interest expense over the remaining life of the old debt or the life of the new debt whichever is shorter.

Net Assets:

Net assets are divided into three categories. Net assets invested in capital assets net of related debt is the capital assets less accumulated depreciation and outstanding principal of the related debt. Restricted net assets reflect restrictions on assets imposed by parties outside the State. Unrestricted net assets are total net assets of the State less net assets invested in capital assets net of related debt and restricted net assets. Unrestricted net assets are comprised mainly of cash, investments, loans, and receivables.

B. Governmental Funds:

Inventories and Prepaid Items:

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements under the consumption method.

Grants:

Revenues from Federal reimbursement type grants are recognized when the related expenditures are incurred and the revenues are both measurable and available. The government considers all grant revenues to be available if they are collected within 60 days of the current fiscal period. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

Income Taxes:

The State accrues the net income tax receivable or records a deferred revenue based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

Sales and Use Taxes:

The State accrues June sales taxes that are not remitted at year end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

Property Taxes:

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real property subject to taxation, due and payable each July 1 and December 1 (lien dates), based on assessed values as of the previous January 1, established by the State Department of Assessments and Taxation at 100% of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate in fiscal year 2006 was 13.2 ¢ per \$100 of assessed value. Unpaid property taxes are considered in arrears on October 1 and January 1, respectively, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Property taxes are accrued to the extent they are collected within 60 days of year end.

Escheat Property:

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund. The asset is recognized in the period when the legal claim to the assets arises or when the resources are received, whichever occurs first, and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

Intergovernmental Expenditures:

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions are recorded as intergovernmental expenditures if such payments do not require mandatory use for specific functions. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

Capital Assets:

Expenditures for capital assets are reported as capital outlays in the governmental funds.

Compensated Absences:

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

C. Enterprise Funds, Fiduciary Funds and Component Units:

Basis of Accounting:

The accounts of the enterprise funds, fiduciary funds, and component units are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For both the government-wide business-type activities and the enterprise fund financial statements, the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

Enterprise funds and component units distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents:

The enterprise funds consider all highly liquid investments that mature within 90 days of purchase to be cash and cash equivalents for reporting on the statement of cash flows.

Grants:

Revenues from Federal reimbursement type grants are recorded when the related expenses are incurred.

Capital Assets:

Capital assets are stated at cost. Depreciation of the cost of capital assets is provided on the straight-line basis over estimated useful lives of 5 to 50 years for depreciable real property and building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

Lottery Revenues, Prizes and Related Transfers:

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards,

operating expenses and capital expenditures. The excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

Provisions for Insurance and Loan Losses:

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

Inventories:

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

3. Deposits with Financial Institutions and the U.S. Treasury and Investments:

Cash and cash equivalents for the governmental funds, enterprise funds, fiduciary funds and component units totaled \$4,700,338,000, \$1,523,900,000, \$1,492,107,000, and \$93,087,000, respectively, as of June 30, 2006. Included as cash and cash equivalents for financial statement presentation were certain short-term investments which are included in footnote 3.B. because they mature within 90 days of purchase. These cash and cash equivalents totaled \$4,700,338,000, \$487,029,000, \$1,528,686,000, and \$63,324,000 for the governmental funds, enterprise funds, fiduciary funds, and component units, respectively, as of June 30, 2006.

As of June 30, 2006, non-negotiable certificates of deposits totaling \$4,669,000 and \$4,452,000 were included in the investments of the governmental and enterprise funds, respectively.

A. Cash Deposits

As of June 30, 2006, the carrying value for the bank deposits of the governmental funds, enterprise funds, fiduciary funds, and component units were \$4,669,000, \$1,041,323,000, (\$36,579,000) and \$29,763,000, respectively. The bank balances were \$4,669,000, \$1,041,302,000, (\$36,579,000), and \$33,379,000, respectively. The balances for the component units do not include the balances for the higher education foundations in the amount of \$18,023,000, and they are not included in the GASB Statement No. 40 disclosure below. The foundations are not required to and do not follow governmental accounting under the GASB's standards.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. State law permits the Treasurer to deposit in a financial institution in the State, unexpended or surplus money in which the Treasurer has custody if (a) the deposit is interest bearing; (b) the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance; and (c) a custodian holds the collateral.

The Economic Development Loan Programs, Maryland Transportation Authority, State Retirement and Pension System, and higher education component unit do not have a deposit policy for custodial credit risk. As of June 30, 2006, \$592,000, \$309,000, (\$107,075,000) and \$999,000, respectively, of their bank balances were exposed to custodial credit risk as uninsured and uncollateralized.

B. Investments:

The State discloses investment risks, below, in accordance with GASB Statement No. 40, which defines these risks as follows:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

1. *Investments-Governmental Funds:*

The State Treasurer's Office is authorized to make investments as stated in footnote 2.A.

Investments are stated at fair value that is based on quoted market prices. The investments and maturities as of June 30, 2006, for the governmental funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-3	More Than 3
U.S. Treasury bills and notes (a)	\$ 103,030	\$ 103,030		
U.S. agencies (b)	1,507,449	508,357	\$999,092 (c)	
Repurchase agreements	4,676,885	4,676,885		
Guaranteed investment contracts	4,459			\$4,459
Total investments	6,291,823	5,288,272	999,092	4,459
Collateral for lent securities	719,708	719,708		
Total investments and collateral for lent securities	\$7,011,531	\$6,007,980	\$999,092	\$4,459

(a) All investments are held by broker dealers under securities lending program.

(b) Investments held by broker dealers under securities lending program are \$362,814,000.

(c) Bonds in the amount of \$594,189,000 mature August 2007 to June 2009, but are callable July 2006 to October 2007.

In addition to the investments scheduled above, as of June 30, 2006, the governmental funds had investments of \$18,994,000 in money market mutual funds and \$166,263,000 in the Local Government Investment Pool. These investments are operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. Their fair values are based on a share price of \$1.00 per share.

Interest Rate Risk. The State Treasurer's Office's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase. In addition, investments of the non-major governmental funds are subject to the provisions of the 2002 and 2005 Qualified Zone Academy Bond covenants requiring that annual sinking fund deposits be made to redeem the bonds in 2016 and 2020, respectively. These funds, totaling \$4,459,000, are invested in guaranteed investment contracts.

Credit Risk. State law requires that the governmental funds' repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments are made directly in U.S. agency obligations. These agency obligations are rated Aaa by Moody's and AAA by Standard and Poor's. State law also requires that money market mutual funds contain only U.S. Treasuries or agencies or repurchase agreements secured by these. The money market mutual funds are rated Aaa/AAA. The Local Government Investment Pool is rated AAAm by Standard & Poor's. The guaranteed investment contracts are collateralized by U.S. agency obligations. They are not required to be and are not rated.

Concentration of Credit Risk. The State Treasurer's Office's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. More than 5 percent of the governmental funds' investments are in the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank. These investments are 54.2%, 35.2% and 5.1% of the governmental funds' total investments, respectively.

2. *Investments - Enterprise Funds:*

The enterprise funds' bond indentures and investment policies, with the exception of the Economic Development Loan Programs, authorize the investment of assets related to the indentures and other funds in obligations in which the State Treasurer may invest. The Economic Development Loan Programs are authorized to invest in obligations of the U.S. Treasury, U.S. government agencies, obligations of U.S. political subdivisions, bankers' acceptances, commercial paper, repurchase agreements, guaranteed investment contracts, corporate debt securities and mutual funds.

Investments of the enterprise funds are stated at fair value, which is based on quoted market prices.

The investments and maturities as of June 30, 2006, for the enterprise funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less Than 1	1-5	6-10	11-15	More Than 15
U.S. Treasury obligations (a)	\$ 489,376	\$ 34,154		\$2,912	\$ 25,718	\$426,592
U.S. Government agency obligations (b)	935,894	882,847	42,811 (c)		3,781	6,455
Repurchase agreements	70,168	3,508	5,263		42,390	19,007
Commercial paper	34,844	34,844				
Guaranteed investment contracts	15,886			15,886		
Total	\$1,546,168	\$955,353	\$48,074	\$18,798	\$71,889	\$452,054

(a) Investments held by broker dealers under securities lending program are \$435,000.

(b) Investments held by broker dealers under securities lending program are \$34,842,000.

(c) Bonds in the amount of \$15,907,000 mature August 2007 to December 2007, but are callable August 2006 to December 2006.

In addition to the investments scheduled above, as of June 30, 2006, the enterprise funds had investments of \$419,700,000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The funds' fair values are based on a share price of \$1.00 per share. The enterprise funds' investments also include the fair value of corporate equity securities, \$503,000 and direct equity investments, \$49,792,000.

The State Lottery Agency, a major enterprise fund, invests in U.S. Treasury obligations and annuity contracts that provide for guaranteed payouts to jackpot prize winners and, therefore, have no interest rate risk to the Lottery. As of June 30, 2006, the fair value of these investments was \$212,767,000 and \$485,000, respectively. Of these investments, U.S. Treasury obligations held by broker dealers under the securities lending program were \$208,064,000.

Interest Rate Risk. The enterprise funds' policy for managing their exposure to fair value loss arising from increasing interest rates is to manage investment maturities so that they precede or coincide with the expected need for funds.

Credit Risk. The investment policies of the enterprise funds require that repurchase agreements are collateralized by U.S. Treasury and agency obligations. The policies also require that money market mutual funds contain only U.S. Treasuries or agencies or repurchase agreements secured by these. According to the indenture and investment policy of the Economic Development Loan Programs, investments must be rated no lower than the rating on the Loan Programs' bonds or F1/P1 for the issuer's short-term accounts or securities. The rating on the Loan Programs' bonds as of June 30, 2006, was Aa2 by Moody's and AA by Fitch. The guaranteed investment contracts are not required to be and are not rated.

As of June 30, 2006, the enterprise funds had the following investments and quality ratings (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Rating Organization	Percentage of Total Investments
U.S. Government agency obligations	\$ 935,894	AAA/Aaa	S&P/Moody's	41.9%
Money market mutual funds	419,700	AAAm/Aaa	S&P/Moody's	18.8
Repurchase agreements-underlying securities	70,168	AAA/Aaa	S&P/Moody's	3.2
Commercial paper	26,862	A-1/P-1	S&P/Moody's	1.2
Commercial paper	7,982	P-2	Moody's	0.4
Guaranteed investment contracts	15,886	Not rated		0.7
Total	\$1,476,492			66.2%

Concentration of Credit Risk. The enterprise funds place no limit on the amount they may invest in any one issuer. More than 5% of the enterprise funds' investments are in obligations of the Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. These investments are 22.1%, 11.3% and 6.0%, respectively, of the enterprise funds' total investments.

3. Investments - Fiduciary Funds:

The Pension Trust Funds are authorized to make investments as stated in footnote 2.A.

The Maryland Local Government Investment Pool is authorized by Article 95, Section 22G, of the Annotated Code of Maryland to invest in any instrument in which the State Treasurer may invest. Investments of the Pool are stated at fair value. Securities are valued daily on an amortized cost basis which approximates market value. Money market funds are valued at the closing net asset value per share on the day of valuation.

The investments and maturities as of June 30, 2006, for the fiduciary funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury notes and bonds	\$ 1,409,938	\$ 35,592	\$ 564,442	\$ 409,080	\$ 400,824
U.S. Treasury strips	10,951				10,951
U.S. Government agency obligations	1,466,569	1,251,127	89,546	72,027	53,869
Repurchase agreements	333,295	333,295			
Bankers' acceptances	4,000	4,000			
Commercial paper	1,604,057	1,604,057			
Guaranteed investment contracts	550,008			550,008	
Corporate bonds	746,762	74,255	339,467	265,956	67,084
International bonds	56,991	19,739	33,009		4,243
Other government bonds	216,711	6,900	66,283	63,787	79,741
Mortgage-backed securities	2,150,665	170	26,702	2,142	2,121,651
Asset-backed securities	447,617		115,075	69,088	263,454
Bond mutual funds	5,734,026	832,514	4,254,146	496,489	150,877
Swaps	(18,591)	(3,014)	(10,049)	(8,886)	3,358
Total investments	14,712,999	4,158,635	5,478,621	1,919,691	3,156,052
Collateral for lent securities	2,148,668	2,148,668			
Total investments and collateral for lent securities	\$16,861,667	\$6,307,303	\$5,478,621	\$1,919,691	\$3,156,052

In addition to the investments scheduled above, as of June 30, 2006, the fiduciary funds had investments of \$107,834,000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The fair value of the funds is based on a share price of \$1.00 per share. The fiduciary funds' investments also include the fair value of stock mutual funds, \$14,226,979,000, corporate equity securities, \$9,048,513,000, real estate, \$882,964,000, annuity contracts, \$393,238,000, and insurance contracts, \$3,768,000.

Interest Rate Risk. The State Retirement and Pension System (System) may invest in derivatives as permitted by guidelines established by the Board of Trustees. Compliance with these guidelines is monitored by the System's staff. Derivatives are used to improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. At times, the System invests in swaps, collateralized mortgage obligations, mortgage pass-through securities, interest-only securities, and principal-only securities. These securities are subject to changes in value due to changes in interest rates. The values of mortgage-backed securities are generally based on the future cash flows associated with the underlying pools of assets. Therefore, they are sensitive to prepayments by mortgagors which may result from a decline in interest rates. The System held \$433,854,000 in collateralized mortgage obligations, \$1,716,811,000 of mortgage pass-through securities and (\$18,591,000) of swaps as of June 30, 2006, including \$1,365,000, \$5,402,000 and \$0, respectively, invested by the System on behalf of the Maryland Transit Administration Pension Plan. Substantially all derivatives are recorded at fair value in the Statement of Net Assets.

The Deferred Compensation Plans invest in annuity contracts and insurance contracts that provide for guaranteed payouts to participants and, therefore, have no interest rate risk to the Plans. As of June 30, 2006, the fair value of these investments was \$149,831,000 and \$3,768,000, respectively.

The State Treasurer's Office manages the Local Government Investment Pool. The State Treasurer's investment policies state that no direct investment by the Pool may have a maturity date of more than 13 months after its acquisition.

Credit Risk. The investment policy of the System requires each fixed income investment manager to maintain a minimum average credit quality of "A" for the total account. The guaranteed investment contracts and the bond mutual funds of the Plans are not required to be and are not rated. The Local Government Investment Pool may only invest in instruments rated Tier 1 by at least one nationally recognized securities rating organization. As of June 30, 2006, the fiduciary funds' investments were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Percentage of Total Investments
U.S. Government agency obligations	\$1,420,939	AAA	3.5%
U.S. Government agency obligations	5,152	AA	0.0
U.S. Government agency obligations	368	BAA	0.0
U.S. Government agency obligations	14,720	BB	0.0
U.S. Government agency obligations	25,391	Unrated	0.1
Repurchase agreements-underlying securities	333,244	AAA	0.9
Repurchase agreements-underlying securities	51	Unrated	0.0
Money market mutual funds	107,834	AAA	0.3
Bankers' acceptances	4,000	A1/P1	0.0
Commercial paper	624,315	AAA	1.6
Commercial paper	979,742	A	2.5
Guaranteed investment contracts	550,008	Unrated	1.4
Corporate bonds	31,521	AAA	0.1
Corporate bonds	63,412	AA	0.2
Corporate bonds	171,694	A	0.4
Corporate bonds	44,499	BAA	0.1
Corporate bonds	128,678	B	0.3
Corporate bonds	124,970	BB	0.3
Corporate bonds	170,100	BBB	0.4
Corporate bonds	7,787	CAA	0.0
Corporate bonds	371	CA	0.0
Corporate bonds	1,113	CCC	0.0
Corporate bonds	1,113	Unrated	0.0
International bonds	2,549	AAA	0.0
International bonds	34,780	AA	0.1
International bonds	4,370	BB	0.0
International bonds	15,293	Unrated	0.0
Other government bonds	23,636	AAA	0.1
Other government bonds	20,537	AA	0.1
Other government bonds	34,228	A	0.1
Other government bonds	2,882	BAA	0.0
Other government bonds	38,551	BB	0.1
Other government bonds	66,036	BBB	0.2
Other government bonds	30,841	Unrated	0.1
Collateralized mortgage obligations	413,252	AAA	1.1
Collateralized mortgage obligations	6,144	AA	0.0
Collateralized mortgage obligations	8,674	A	0.0
Collateralized mortgage obligations	1,446	BAA	0.0
Collateralized mortgage obligations	1,084	BBB	0.0
Collateralized mortgage obligations	3,253	Not rated	0.0
Convertible bonds	1,506	B	0.0
Mortgage pass-through securities	1,711,390	AAA	4.4
Mortgage pass-through securities	5,421	Not rated	0.0
Asset-backed securities-other	355,021	AAA	0.9
Asset-backed securities-other	19,816	AA	0.1
Asset-backed securities-other	27,743	A	0.1
Asset-backed securities-other	45,037	BBB	0.1
Bond mutual funds	5,734,023	Not rated	14.5
Total	<u>\$13,418,535</u>		<u>34.1%</u>

Foreign Currency Risk. The majority of the System's foreign currency-denominated investments are in equities, which the System's asset allocation policy limits to 15%.

The System's exposure to foreign currency risk as of June 30, 2006, is as follows (amounts expressed in thousands).

Investment	Currency	Maturity	Fair Value
Cash	Australian dollar	Not applicable	\$ 198
Common stock	Australian dollar	Not applicable	61,000
Common stock	Brazilian real	Not applicable	185
Cash	Canadian dollar	Not applicable	891
Common stock	Canadian dollar	Not applicable	113,179
Cash	Danish krone	Not applicable	29
Common stock	Danish krone	Not applicable	27,241
Credit Suisse Shirley & Charl	Egyptian pound	01/16/07	2,087
Alternative investments	Euro currency	Not applicable	16,926
Cash	Euro currency	Not applicable	862
Common stock	Euro currency	Not applicable	1,058,209
Bundesrepublik Deutschland	Euro currency	10/18/06	13,057
Swaps	Euro currency	Not applicable	(171)
Cash	Hong Kong dollar	Not applicable	110
Common stock	Hong Kong dollar	Not applicable	118,802
Common stock	Indonesian rupiah	Not applicable	4,046
Cash	Japanese yen	Not applicable	2,842
Common stock	Japanese yen	Not applicable	599,038
European Investment Bank	Japanese yen	09/20/06	2,623
Republic of Italy	Japanese yen	03/27/08	30,575
Republic of Italy	Japanese yen	10/10/06	3,852
Common stock	Malaysian ringgit	Not applicable	7,185
Cash	Malaysian ringgit	Not applicable	55
Cash	Mexican peso	Not applicable	198
Common stock	Mexican peso	Not applicable	13,174
Cash	New Taiwan dollar	Not applicable	1,883
Common stock	New Taiwan dollar	Not applicable	12,643
Common stock	New Turkish lira	Not applicable	20,973
Cash	Norwegian krone	Not applicable	212
Common stock	Norwegian krone	Not applicable	52,357
Cash	Polish Zloty	Not applicable	6
Common stock	Polish Zloty	Not applicable	2,017
Alternative investments	Pound sterling	Not applicable	10,086
Cash	Pound sterling	Not applicable	909
Common stock	Pound sterling	Not applicable	509,040
Swaps	Pound sterling	Not applicable	159
Cash	Singapore dollar	Not applicable	737
Common stock	Singapore dollar	Not applicable	49,999
Cash	South African rand	Not applicable	259
Common stock	South African rand	Not applicable	44,599
Common stock	South Korean won	Not applicable	56,077
Cash	Swedish krona	Not applicable	268
Common stock	Swedish krona	Not applicable	37,986
Cash	Swiss franc	Not applicable	530
Common stock	Swiss franc	Not applicable	218,642
Mutual funds	Not applicable	Not applicable	3,758,414
Total			<u>\$6,853,989</u>

4. Investments - Component Units:

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments and are invested in accordance with the investment policies adopted by the Board of Trustees. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, corporate debt and equity securities, asset-backed securities and mutual funds that invest in government securities. The investments of the higher education foundations are not included in the GASB Statement No. 40 disclosures below because the foundations are not required to and do not follow the GASB.

In July 2005, one of the institutions, the University System of Maryland, transferred title to its endowment investments to its foundation in exchange for an equivalent proportionate interest in the long-term investment portfolio managed by the foundation. The agreement is for a term of five years, with renewable two-year extensions at the option of the institution, unless notice of intent to terminate the arrangement is provided prior to the expiration of the term. If the agreement is terminated, funds invested with individual investment managers that have commitments from the foundation to maintain investments for certain minimum time periods may not be returned to the institution until those constraints have been satisfied. For reporting purposes, the foundation's investments have been reduced by the amount of the institution's investments with the foundation.

The Maryland Stadium Authority is restricted by the trust indenture for each bond issue as to the investments which can be made. Authorized investments under the indentures include U.S. Treasury and agency obligations, municipal obligations, banker's acceptances, and repurchase agreements.

Investments of the component units are stated at fair value, which is based on quoted market prices.

The investments and maturities as of June 30, 2006, for the component units, excluding the investments of the higher education foundations in the amount of \$746,357,000, are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less Than 1	1-5	6-10	11-15	More Than 15
U.S. Treasury obligations	\$ 20,927	\$ 1,404	\$ 8,954	\$ 6,770		\$ 3,799
U.S. Government agency obligations	35,808	3,964	7,203	264	\$2,316	22,061
Repurchase agreements	3,868	3,868				
Corporate debt securities	88,474	1,250	16,213	9,464	3,034	58,513
Municipal bonds	6,864	568	2,221	1,780	812	1,483
Total	\$155,941	\$11,054	\$34,591	\$18,278	\$6,162	\$85,856

In addition to the investments scheduled above, as of June 30, 2006, the component units had investments of \$109,140,000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The funds' fair values are based on a share price of \$1.00 per share. In addition, as of June 30, 2006, the component units' investments include the fair value of stock mutual funds, \$157,314,000, corporate equity securities, \$124,333,000, real estate \$4,702,000, and the share of assets invested with the foundation, \$213,470,000.

Interest Rate Risk. The policy of the higher education institutions for managing their exposure to fair value loss arising from increasing interest rates is to comply with their investment policy, which sets maximum maturities for various fixed income securities.

Credit Risk. The policies of the higher education institutions for reducing their exposure to credit risk are to require minimum quality ratings for fixed income securities. Money market mutual funds are not required to be and are not rated.

As of June 30, 2006, the component units had the following investments and quality ratings (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Rating Organization	Percentage of Total Investments
U.S. agencies	\$ 35,808	AAA/Aaa	S&P & Moody's	4.7%
Money market mutual funds	109,140	Not rated		14.2
Repurchase agreements - underlying securities	3,868	Not rated		.5
Corporate debt securities	23,820	AAA/Aaa	S&P & Moody's	3.1
Corporate debt securities	3,439	AA/Aa	S&P & Moody's	.5
Corporate debt securities	12,943	A	S&P & Moody's	1.7
Corporate debt securities	19,554	Less than A	Moody's	2.6
Corporate debt securities	87	BBB	S&P & Moody's	.0
Corporate debt securities	28,631	Not rated		3.7
Municipal bonds	6,864	Aaa	Moody's	.9
Total	\$244,154			31.9%

C. Securities Lending Transactions:

1. Governmental and Enterprise Fund Types:

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. Government securities to broker-dealers and other entities (borrowers). The State Treasurer's Office controls the program and authorizes all transactions. These transactions may involve certain investments held in the State treasury for the benefit of State agencies. The State's custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. Additionally, under the terms of the lending agreement, the lending agent indemnifies the State against any credit loss arising from investment of the collateral. The collateral will be returned for the same securities in the future. Cash collateral is initially pledged at greater than the market value of the securities lent and additional cash collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent.

Securities on loan at year-end are owned by the general fund, other governmental funds, the Maryland State Lottery Agency, and the Economic Development Loan Programs and are included in the preceding Investments Schedule in footnote 3.B. At year-end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2006, the fair value of the loaned securities and the related collateral were as follows (amounts expressed in thousands).

	Fair Value		Percent Collateralized
	Lent Securities	Collateral Received	
Securities-General fund	\$462,720	\$467,814	101.1%
Securities-Other governmental funds	3,756	3,734	99.4
Securities-Lottery Agency	208,064	212,230	102.0
Securities-Economic Development Loan Programs	35,277	35,930	101.9
Total	<u>\$709,817</u>	<u>\$719,708</u>	

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. Investments made with cash received as collateral are included in the preceding Investments-Governmental Funds Schedule in footnote 3.B.1.

The State's custodial bank is obligated to indemnify the State against liability for any suits, actions, or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 2006.

2. *Fiduciary Funds:*

The Pension Trust Funds (Funds) participate in a securities lending program as permitted by the investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers in return for collateral of greater value. The preceding Investments – Fiduciary Funds Schedule in footnote 3.B.3 includes (1) securities lent at year-end for cash collateral; (2) securities lent for securities collateral; and (3) investments purchased with cash collateral.

Borrowing brokers must transfer in the form of cash or other securities, collateral valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked to market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the lent securities. The Funds have not experienced any loss due to credit or interest rate risk on securities lending activity since inception of the program. As of June 30, 2006, the Funds had no credit risk exposure to borrowers because the fair value of collateral held for securities lent exceeded the fair value of the related securities, as follows (amounts expressed in thousands).

Securities Lent	Fair Value	Cash Collateral Received or Non- Cash Collateral Value	Percent Collateralized
Lent for cash collateral:			
Fixed income securities	\$ 970,213	\$ 984,281	101.4%
Domestic equities	654,147	666,489	101.9
International equities	485,779	497,898	102.5
Subtotal	<u>2,110,139</u>	<u>2,148,668</u>	
Lent for noncash collateral:			
Fixed income securities	7,800	7,978	102.3
Domestic equities	120	142	118.3
Total securities lent	<u>\$2,118,059</u>	<u>\$2,156,788</u>	

Although the average term of the Funds' security loans is one week, each loan can be terminated at will by either the Funds or the borrower. Cash collateral is invested in one of the lending agent's short-term investment pools, which as of June 30, 2006, had a weighted average maturity of 50 days and an average expected maturity of 191 days. Because the relationship between the maturities of the investment pools and the Fund's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the Funds cannot match maturities. The Funds cannot pledge or sell collateral securities received unless and until a borrower defaults.

4. Receivables:

Taxes receivable, as of June 30, 2005, consist of the following (amounts expressed in thousands).

	Major Governmental Funds		Non-Major Governmental Funds
	General	Special Revenue	
Income taxes	\$446,928		
Sales and use taxes	348,265		
Transportation taxes, principally motor vehicle fuel and excise .		\$91,773	
Other taxes, principally alcohol and property	25,764		\$ 14,578
Less: allowance for uncollectibles	19,443		
Taxes receivable, net	<u>\$801,514</u>	<u>\$91,773</u>	<u>\$ 14,578</u>

Tax revenues are reported net of uncollectible amounts. Total uncollectible amounts related to tax revenues of the current period are \$3,700,000.

Other accounts receivable in the governmental funds of \$625,252,000, including \$150,332,000 due in excess of one year, consist of various miscellaneous receivables for transportation costs, collection of bills owed to the State's collection unit, Medicaid reimbursements, and child support and public assistance overpayments and surcharges.

Other accounts receivable for the enterprise funds of \$210,444,000, primarily consist of \$122,057,000 due to the Maryland Unemployment Trust Fund from employers and for benefit overpayments, and \$23,196,000, due to the Maryland State Lottery Agency for lottery ticket sale proceeds.

Other accounts receivable in the agency funds of \$1,593,114,000 represent cash pooled in the State treasury that is being held pending distribution to local governments.

5. Deferred Revenue:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, enterprise funds, and component units also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of June 30, 2006, the various components of deferred revenue reported in the governmental funds and enterprise funds were as follows (amounts expressed in thousands).

	Unavailable	Unearned
Tax receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	\$122,495	
Other receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	197,759	
Other receivables for revenues not considered available to liquidate liabilities of the current period (special revenue fund)	38,841	
Other receivables for revenues not considered available to liquidate liabilities of the current period (other governmental funds)	101	
Income tax and other receipts that have been received, but not earned (general fund)		\$11,127
Revenue in connection with resources that have been received, but not earned (special revenue fund)		13,957
Revenue in connection with resources that have been received, but not earned (enterprise funds)		15,808
Total deferred/unearned revenue for governmental funds and enterprise funds	<u>\$359,196</u>	<u>\$40,892</u>

6. Loans and Notes Receivable and Investment in Direct Financing Leases:

A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 2006 consist of the following (amounts expressed in thousands).

	Primary Government				Component Units	
	General	Special Revenue Department of Transportation	Non-major Governmental Funds	Enterprise	Higher Education	Stadium Authority
Notes receivable:						
Political subdivisions:						
Water quality projects			\$ 4,702	\$ 672,748		
Construction		\$7,748				
Other			36			
Hospitals and nursing homes ...			2,801			
Permanent mortgage loans				1,848,400		
Student and health profession loans ...					\$77,102	
Shore erosion loans			6,674			
Other	\$1,373				6,515	\$4,563
Total	1,373	7,748	14,213	2,521,148	83,617	4,563
Less: Allowance for possible loan losses.				193,927	11,305	
Loans and notes receivable, net ...	1,373	7,748	14,213	2,327,221	72,312	4,563
Due within one year	195	2,929	2,747	104,538	15,270	325
Due in more than one year	\$1,178	\$4,819	\$11,466	\$2,222,683	\$57,042	\$4,238

Certain notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 3.3% to 8.8% and mature within 27 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds' Federal assistance program. The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes. Student and health profession loans are made pursuant to student loan programs funded through the U.S. Government.

B. Investment in Direct Financing Leases:

Enterprise Funds:

As of June 30, 2006, the Maryland Transportation Authority (Authority) has direct financing leases with the State's Department of Transportation and Washington Metropolitan Area Transit Authority (WMATA). The present value of the direct financing leases as of June 30, 2006, was \$464,761,000. As of June 30, 2006, the Authority held \$51,007,000 to be spent to complete assets under these direct financing leases. Lease payments receivable, including unearned interest for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2007	\$ 37,696
2008	47,218
2009	47,407
2010	47,443
2011	47,472
2012-2016	214,629
2017-2021	170,256
2022-2026	158,692
2027-2031	75,759
2032-2036	20,491
Total	867,063
Less: Unearned interest income	351,295
Net lease payments	515,768
Restricted investments related to unexpended bond proceeds	51,007
Net investments in direct financing leases	\$464,761

Component Units:

As of June 30, 2006, the Maryland Stadium Authority (Authority) has direct financing leases with the State. The present value of the direct financing leases as of June 30, 2006, is \$283,787,000. As of June 30, 2006, the Authority held \$12,493,000 to be spent to complete assets under these direct financing leases. Lease payments receivable, including unearned interest for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2007	\$ 31,725
2008	31,888
2009	31,327
2010	31,388
2011	31,476
2012-2016	151,327
2017-2021	108,843
2022-2026	42,867
Total	460,841
Less: Unearned interest income	164,561
Net lease payments	296,280
Restricted investments related to unexpended bond proceeds	12,493
Net investments in direct financing leases	\$283,787

7. Restricted Assets:

Certain assets of the governmental activities, business-type activities and component units are classified as restricted assets on the Statement of Net Assets. The purpose and amount of restricted assets as of June 30, 2006, are as follows (amounts expressed in thousands).

Amount	Purpose
Governmental Activities:	
\$ 49,430	Represents money restricted for completion of transportation construction projects maintained in a trust account per Certificates of Participation agreements
4,696	Represents cash and cash equivalents and investments restricted for debt service payments according to bond agreements
972	Represents funds transmitted to bond paying agents and restricted for payments for coupons and bonds that have not been presented
4,459	Represents sinking fund deposits restricted for redemption of term bonds
6,674	Consists of Shore Erosion Control Program loans, the repayments of which are restricted by statute for future loans
Business-type Activities:	
\$2,475,611	Assets of the Community Development Administration and the State Funded Loan Programs are restricted for various mortgage loans for low-income housing and local governments' public facilities
138,888	The purpose of the restricted assets is to secure the loans and revenue bonds of the Maryland Water Quality Administration made for waste-water treatment systems, drinking systems and secured deposits
1,033,984	Restricted assets represent deposits with the U.S. Treasury to pay unemployment compensation benefits in accordance with Federal statute
213,251	This cash is held in separate annuity contracts and coupon bonds in the Maryland State Lottery Agency for winning lottery ticket payouts
233,268	Cash and investments have been restricted in accordance with revenue bond debt covenants of the Maryland Transportation Authority for completion of capital projects, facility operations, and debt service
Component Units:	
\$ 71,068	Restricted assets of higher education include funds held by the trustee for future construction projects, cash restricted for endowment purposes, and assets associated with student loans and loan repayments
12,642	Restricted assets of Maryland Stadium Authority include cash and cash equivalents and investments that relate to revenue bond indentures
16,094	Restricted assets include investments that relate to revenue bond indentures and to restricted project advances for the provision of water supply and waste-water treatment by the Maryland Environmental Service

8. Interfund Receivables and Payables:

Interfund balances, as of June 30, 2006, consist of the following (amount expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$6,297 (a)
	Enterprise Funds - Maryland State Lottery Agency	41,717 (a)
		<u>\$48,014</u>
Special Revenue Fund	General Fund	\$237,149
	Enterprise Funds - Maryland Transportation Authority	34,411 (b)
		<u>\$271,560</u>
Non-major Governmental Funds	General Fund	<u>\$323,864</u>
Enterprise Funds -		
Economic Development Loan Programs	General Fund	\$243,137
Unemployment Insurance Program	General Fund	1,275
Maryland State Lottery Agency	General Fund	61,925
Maryland Transportation Authority	Special Revenue Fund	9,775 (c)
Non-major Enterprise Funds	General Fund	114,572
		<u>\$430,684</u>

The receivable and payable transactions between the Primary Government and Component Units, as of June 30, 2006, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
Components Units -		
Higher Education Fund	General Fund	\$760,156
Maryland Stadium Authority	General Fund	7,870
Non-major Component Units	General Fund	40,139
		<u>\$808,165</u>

- (a) The amounts represent monies collected by the special revenue fund and the Maryland State Lottery in June, 2006, and paid to the general fund in July, 2006.
- (b) The Maryland Transportation Authority collects fees for the special revenue fund. The money will be used to build and maintain special revenue fund infrastructure, structures and other improvements.
- (c) The Maryland Transportation Authority lent funds to the Special Revenue Fund for a construction project at the Seagirt Marine Terminal. The balance outstanding as of June 30, 2006, was \$9,775,000. Payments will continue for 33 years after completion of the project.

All remaining amounts which are due from the general fund represent pooled cash belonging to the other funds on deposit with the State Treasurer.

All interfund balances except for (c), above, are expected to be repaid by June 30, 2007.

9. Interfund Transfers:

Interfund transfers, for the year ended June 30, 2006, consist of the following (amounts expressed in thousands).

Transfers In	Transfers Out	Amount
General Fund	Special Revenue Fund	\$132,551
	Non-major Governmental Funds	11,767
	Enterprise Funds -	
	Maryland State Lottery Agency	500,971
	Economic Development Loan Programs	6,874
	Non-major Enterprise Funds	1,000
		<u>\$653,163</u>
Special Revenue Fund	General Fund	<u>\$229,282</u>
Non-major Governmental Funds	General Fund	<u>\$110,191</u>
	Special Revenue Fund	141,217
		<u>\$251,408</u>
Enterprise Funds -		
Loan Programs	General Fund	\$29,469
	Non-major Governmental Funds	21,526
		<u>\$50,995</u>

Transfers are primarily used to 1) transfer revenues from the fund required by statute or budget to collect the revenue to the fund required by statute or budget to expend them, 2) transfer receipts restricted to debt service from the funds collecting the receipts to the non-major governmental funds as debt service payments become due, and 3) provide unrestricted

revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In addition, the non-major governmental funds transferred \$8,162,000 of interest earned on bonds, \$36,000 return of funds for rescinded pay-as-you-go capital projects, and \$725,000 of Shore Erosion loan funds to the general fund. The general fund transferred \$34,000 for redemptions and interest on state bonds, \$105,235,000 for program open space capital projects, \$631,000 for improvements at Maryland Veteran cemeteries, and \$4,290,000 for other capital projects, primarily public school construction, to the non-major governmental funds.

The Maryland State Lottery transferred revenue in excess of funds allocated to prize awards, operating expenses and capital expenditure payments in the amount of \$500,971,000, to the general fund. The general fund transferred \$29,469,000 to support the operations of Enterprise Funds – Loan Programs and the Enterprise Funds – Loan Programs transferred \$6,874,000 of unused funds to the general fund. Also, expenditures for capital projects of \$21,526,000 were transferred to Enterprise Funds – Loan Programs.

During the year, the general fund and other governmental funds had expenditures of \$918,531,000, and \$133,269,000, respectively, that were for funds provided to supplement revenues and construction costs, respectively, of the higher education component units. The general fund also had net expenditures of \$17,981,000 that were for funds provided to supplement revenues of the Maryland Stadium Authority.

10. Capital Assets:

A. Capital Assets, Primary Government:

Capital assets activity by asset classification net of accumulated depreciation, for the year ended June 30, 2006, was as follows (amounts expressed in thousands).

Governmental activities:

Classification	Balance June 30, 2005	Additions	Deletions	Transfers In (Out)	Balance June 30, 2006
Capital assets, not being depreciated,					
Land and improvements	\$ 2,495,056	\$64,286	\$2,947	\$ 101,120	\$2,657,515
Art and historical treasures	27,118	2			27,120
Construction in progress	2,753,072	1,016,796	308	(1,089,204)	2,680,356
Total capital assets, not being depreciated	5,275,246	1,081,084	3,255	(988,084)	5,364,991
Capital assets, being depreciated,					
Structures and improvements	4,955,341	64,198	6,300	193,353	5,206,592
Equipment	2,155,797	135,264	31,845	69,289	2,328,505
Infrastructure	13,441,565	364,390	537	725,442	14,530,860
Total capital assets, being depreciated	20,552,703	563,852	38,682	988,084	22,065,957
Less accumulated depreciation for,					
Structures and improvements	1,699,072	139,657	748		1,837,981
Equipment	1,340,368	157,599	29,256		1,468,711
Infrastructure	5,978,172	558,203	1,187		6,535,188
Total accumulated depreciation	9,017,612	855,459	31,191		9,841,880
Total capital assets, net	\$16,810,337	\$789,477	\$10,746	\$ ---	\$17,589,068

Business-type activities:

Classification	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets, not being depreciated,				
Land and improvements	\$ 110,008	\$ 10,839		\$ 120,847
Capital assets, being depreciated,				
Structures and improvements	50,784	60		50,844
Equipment	36,828	706	\$2,634	34,900
Infrastructure	2,284,481	118,886		2,403,367
Total capital assets, being depreciated	2,372,093	119,652	2,634	2,489,111
Less accumulated depreciation for,				
Structures and improvements	21,175	2,956		24,131
Equipment	24,751	1,686	2,634	23,803
Infrastructure	937,595	55,150		992,745
Total accumulated depreciation	983,521	59,792	2,634	1,040,679
Total capital assets, net	\$1,498,580	\$ 70,699	\$ ---	\$1,569,279

B. Depreciation Expense, Primary Government:

The depreciation expense for the year ended June 30, 2006, for the primary government was charged as follows (amounts expressed in thousands).

Governmental activities:

Function	Amount
General government	\$ 31,510
Education	11,637
Business and economic development	13
Human resources	6,735
Health and mental hygiene	17,032
Environment	759
Public safety	41,592
Housing and community development	1,284
Natural resources and recreation	15,743
Transportation	718,484
Agriculture	7,876
Labor, licensing and regulation	505
Judicial	2,289
Total depreciation expense – governmental activities	\$855,459

Business-type activities:

Function	Amount
State Lottery	\$ 560
Transportation Authority	58,038
Maryland Correctional Enterprises	1,178
Economic Development Loan Programs	16
Total depreciation expense - business type activities	\$ 59,792

11. Long-Term Obligations:

A. Governmental Activities:

Changes in governmental activities' long-term debt, for the year ended June 30, 2006, are as follows (amounts expressed in thousands).

	Balance June 30, 2005	Additions	Reduction	Balance June 30, 2006	Amounts Due Within One Year
Bonds and Notes Payable:					
General obligation bonds	\$4,511,827	\$750,000	\$393,355	\$4,868,472	\$405,695
Transportation bonds	1,071,620	100,000	92,280	1,079,340	68,290
Deferred amounts:					
Issuance premiums	396,574	54,907	39,426	412,055	
On refunding	(79,833)		(11,293)	(68,540)	
Total bonds and notes payable	5,900,188	904,907	513,768	6,291,327	473,985
Other Liabilities:					
Compensated absences	244,967	162,355	142,368	264,954	126,306
Self insurance costs	290,433	780,728	781,441	289,720	104,719
Escheat property	64,371	42,145	50,888	55,628	35,500
Net pension obligation	279,618	157,175		436,793	
Obligations under capital leases	440,236	119,423	40,067	519,592	37,296
Obligations under capital leases with component units	304,220	1,774	12,854	293,140	15,307
Other long-term liabilities	424,523	5,320	25,523	404,320	9,270
Total other liabilities	2,048,368	1,268,920	1,053,141	2,264,147	328,398
Total long-term liabilities-governmental activities ...	\$7,948,556	\$2,173,827	\$1,566,909	\$8,555,474	\$802,383

General Obligation Bonds -

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, facilities for institutions of higher education and the construction of public schools in political subdivisions. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, authorizes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the

Governor, the Comptroller and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts for part or all of the loans authorized by particular enabling acts. General obligation bonds are subject to arbitrage regulations. However, there are no major outstanding liabilities in connection with these regulations as of June 30, 2006. Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the date of issue. Property taxes, debt service fund loan repayments and general fund and capital projects fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 2006, the State issued \$750,000,000 of general obligations at a premium of \$51,093,000 with related issuance costs of \$1,778,000.

Refunded bonds of \$638,270,000 maturing in fiscal years 2007-2016 and callable in fiscal years 2007-2011 were considered defeased as of June 30, 2006. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

General obligation bonds issued and outstanding, as of June 30, 2006, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Principal Issued	Principal Outstanding
10/21/93(a)	1995-2007	3.0-4.8	\$ 143,145	\$ 10,475
3/3/94	1997-2009	3.5-4.8	119,965	10,810
10/24/96	2000-2012	5.0	170,000	13,510
3/13/97	2000-2012	5.0	240,000	19,065
8/14/97	2001-2013	4.8-5.0	250,000	59,630
3/5/98	2001-2013	4.5-5.0	250,000	59,630
7/22/98	2002-2014	5.0-5.3	250,000	77,645
3/11/99	2002-2014	4.0-4.5	225,000	109,640
7/29/99	2003-2015	4.3-5.3	125,000	47,545
8/3/00	2004-2016	5.1-5.8	200,000	88,640
3/8/01	2004-2016	4.0-5.5	200,000	164,880
7/26/01	2005-2017	5.0-5.5	200,000	176,855
11/21/01	2016	0 (b)	18,099	18,099
3/21/02(a)	2003-2017	4.0-5.5	309,935	217,280
8/15/02(a)	2003-2018	3.0-5.5	515,830	396,130
3/6/03(a)	2006-2018	5.0-5.3	586,120	544,735
8/5/03	2007-2019	5.0	500,000	500,000
8/10/04	2008-2020	5.0	400,000	400,000
10/21/04 (a)	2005-2016	5.0	574,655	561,335
11/30/04	2020	0 (b)	9,043	9,043
3/17/05 (a)	2006-2020	3.4-5.3	656,185	633,525
8/11/05	2009-2021	4.3-5.0	450,000	450,000
3/23/06	2009-2021	4.0-5.0	300,000	300,000
			<u>\$6,692,977</u>	<u>\$4,868,472</u>

(a) Includes refunding debt

(b) Qualified Zone Academy Bonds are non-interest bearing.

General obligation bonds authorized, but unissued, as of June 30, 2006, total \$1,774,484,000.

As of June 30, 2006, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2007	\$ 405,695	\$ 238,793
2008	428,310	220,527
2009	464,725	198,056
2010	443,440	175,002
2011	430,480	153,156
2012-2016.....	1,748,828	464,649
2017-2021.....	946,994	94,326
Total	<u>\$4,868,472</u>	<u>\$1,544,509</u>

On August 10, 2006, general obligation bonds aggregating \$350,000,000 were issued for capital improvements. The interest rates on the new issue range from 4.3% to 5.0%, and the bonds mature serially through 2022.

Transportation Bonds -

Transportation bonds outstanding as of June 30, 2006, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds – 2.0% to 5.5%, due serially through 2021	\$ 918,600
Consolidated Transportation Bonds, Refunding – 4.0% to 5.5%, due serially through 2014.	159,875
County Transportation Bonds -- 6.2%, due serially through 2007	865
Total	<u>\$1,079,340</u>

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport, rail, or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year, that does not exceed \$2,000,000,000 through June 30, 2006, and thereafter. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2006, was \$1,333,475,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2006, was \$1,078,475,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are available to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (1) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (2) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

The 2005 session of the General Assembly established a maximum outstanding principal amount of \$754,100,000 as of June 30, 2006, for all nontraditional debt of the Department. Nontraditional debt outstanding is defined as any debt instrument that is not a Consolidated Transportation Bond or GARVEE bond (tax-exempt debt backed by annual federal appropriations for federal-aid transportation projects). This debt includes certificates of participation, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by the Maryland Economic Development Corporation or any other third party on behalf of the Department. As of June 30, 2006, the Department's nontraditional debt outstanding was \$752,790,000 and is reported as obligations under capital leases and other long-term liabilities.

County Transportation Bonds are issued by the Department, and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities and to provide local participating funds for Federally-aided highway projects. Debt service on these bonds is payable from the counties' and Baltimore City's shares of highway user revenues. Legislation was enacted during the 1993 session of the General Assembly that established an alternative County transportation bond program. This new legislation provides features similar to the previous program except that the County transportation debt will be the obligation of the participating counties rather than the Department. As of June 30, 2006, the principal balance outstanding for County Transportation Revenue Bonds for which the Department is not liable totaled \$30,000,000. These bonds do not constitute a debt or pledge of the faith and credit of the Department or the State and, accordingly, have not been reported in the accompanying financial statements.

Arbitrage regulations are applicable to the transportation bonds payable. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2006.

During fiscal year 2006, the Department issued \$100,000,000 of Consolidated Transportation Bonds at a premium of \$3,814,000.

Refunded bonds of \$46,500,000 were considered defeased as of June 30, 2006. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2006, Department bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30	Consolidated and County Transportation Bonds	
	Principal	Interest
2007	\$ 68,290	\$ 51,026
2008	68,990	48,064
2009	76,210	45,202
2010	75,595	41,813
2011	76,670	38,446
2012-2016	438,635	133,167
2017-2020	274,950	26,021
Total	<u>\$1,079,340</u>	<u>\$383,739</u>

Obligations Under Capital Leases -

Obligations under capital leases as of June 30, 2006, bore interest at annual rates ranging from 2.0% to 5.9%. Capital lease obligations with third parties in fiscal year 2006 increased by \$119,423,000 for master equipment and building leases entered into by the general fund and leases for various transportation related projects entered into by the Maryland Department of Transportation. The capital leases with component units include the general fund's capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games, and with other non-major component units. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2006 (amounts expressed in thousands).

Years Ending June 30	Capital Lease Obligations with	
	Third Parties	Component Units
2007	\$ 62,038	\$ 33,733
2008	60,343	33,860
2009	57,036	33,306
2010	48,929	33,355
2011	43,568	33,657
2012-2016	187,092	156,342
2017-2021	151,575	108,843
2022-2026	117,541	42,867
2027-2031	76,144	
2032-2036	1,477	
Total future minimum payments.	<u>805,743</u>	<u>475,963</u>
Less: Amount representing interest	279,757	167,438
Less: Restricted cash and investments	6,394	15,385
Present value of net minimum payments	<u>\$519,592</u>	<u>\$293,140</u>

The reduction shown for restricted cash and investments in the amount of \$21,779,000 are monies held by the bond trustee to be used primarily for construction expenditures, including \$6,394,000 held on behalf of the Maryland Economic Development Corporation.

The assets acquired through capital leases are as follows (amounts expressed in thousands).

Asset	Third Parties Amount
Construction in progress	\$6,310
Land and improvements	12,014
Buildings and improvements	629,588
Machinery and equipment	269,023
Infrastructure	41,570
Total acquired assets	<u>958,505</u>
Less: accumulated depreciation	261,418
Total capital assets - net	<u>\$697,087</u>

Other Liabilities -

The Maryland Department of Transportation has entered into several financing agreements, primarily with the Maryland Transportation Authority, for the financing of various transportation related projects, similar in nature to capital leases. The Department has obligations under other long-term liabilities of \$404,320,000 as of June 30, 2006, bearing interest at annual rates ranging from 2.2% to 6.7%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2006 (amounts expressed in thousands).

Years Ending June 30,	Other Liabilities
2007	\$ 30,913
2008	39,953
2009	40,200
2010	40,400
2011	40,594
2012-2016	182,878
2017-2021	141,511
2022-2026	136,720
2027-2031	62,625
2032-2036	17,594
Total future minimum payments	733,388
Less: Amount representing interest	296,386
Less: Restricted cash and investments	32,682
Present value of net minimum payments	\$404,320

The reduction shown for restricted cash and investments in the amount of \$32,682,000 is monies held by the bond trustee on behalf of the Maryland Transportation Authority to be used primarily for construction expenditures.

The assets acquired through other long-term liabilities are as follows (amounts expressed in thousands).

Asset	Amount
Construction in progress	\$71,582
Buildings and improvements	343,240
Machinery and equipment	6,927
Infrastructure	178,706
Total acquired assets	600,455
Less: accumulated depreciation	42,251
Total capital assets – net	\$558,204

For the governmental activities, compensated absences, self insurance, escheat property claim payments, net pension obligations, obligations under capital leases and other liabilities are generally liquidated by the general or special revenue fund as applicable.

B. Long Term Obligations – Business-type Activities:

Changes in long-term obligations for business-type activities as of June 30, 2006, are as follows (amounts expressed in thousands).

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds Payable:					
Revenue bonds payable	\$2,825,315	\$692,596	\$635,056	\$2,882,855	\$455,095
Other Liabilities:					
Lottery prizes	229,204	16,187	45,867	199,524	40,969
Escrow deposits	37,399	29,027	16,714	49,712	9,305
Rebate liability	18,150	1,121	11,540	7,731	656
Compensated absences	8,220	5,831	5,026	9,025	1,897
Self insurance costs	7,116	1,530	1,864	6,782	1,051
Obligations under capital leases	1,673		417	1,256	440
Total other liabilities	301,762	53,696	81,428	274,030	54,318
Total long-term liabilities- business type activities	\$3,127,077	\$746,292	\$716,484	\$3,156,885	\$509,413

Debt service requirements for business-type activities' notes payable and revenue bonds to maturity are as follows (amounts expressed in thousands).

Years Ending June 30,	Community Development Administration		Maryland Water Quality Financing Administration		Maryland Transportation Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 402,360	\$ 89,682	\$ 8,960	\$ 1,435	\$ 34,390	\$ 35,052
2008	48,915	79,857	8,874	3,199	27,678	33,053
2009	54,110	77,745	9,241	2,750	28,156	32,337
2010	54,905	75,494	9,750	2,152	28,848	31,329
2011	53,620	73,095	10,040	1,708	29,585	30,269
2012-2016	276,845	327,953	28,460	2,934	168,206	131,554
2017-2021	264,170	263,383			113,025	95,198
2022-2026	227,445	198,796			140,820	62,423
2027-2031	203,745	140,821			96,760	26,646
2032-2036	256,725	91,123			51,410	4,550
2037-2041	127,280	34,708				
2042-2046	62,080	8,556				
2047-2051	4,135	160				
Total	2,036,335	1,461,373	75,325	14,178	718,878	482,411
Discounts, premiums and other deferred costs.....	4,150		1,930			
Accumulated accreted interest					46,237	
Total.....	\$2,040,485	\$1,461,373	\$77,255	\$14,178	\$765,115	\$482,411

Community Development Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, proceeds of which were used for various mortgage loan programs. Assets aggregating approximately \$2,476,342,000 and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 1.4% to 6.8%, with the bonds maturing serially through December, 2047. The principal amount outstanding as of June 30, 2006, is \$2,040,485,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 102% of the outstanding principal amount. During fiscal year 2006, the Administration issued \$595,645,000 of revenue bonds with interest rates ranging from 3.0% to 6.0% and maturing serially through December, 2047.

The Administration issues short-term tax-exempt bonds to preserve its allocation of the state volume ceiling until the issuance of long-term bonds to finance mortgages. In fiscal year 2006, the Administration issued 2005 Series F, 2005 Series G, 2006 Series C, and 2006 Series D, which are still outstanding as of June 30, 2006. Series 2004, Series J and 2004, Series K were issued in fiscal year 2005 and either were redeemed prior to maturity or matured in fiscal year 2006.

The short-term debt that was issued in fiscal year 2006 was in the Residential Revenue Bond Program Fund.

The following summarizes short-term debt activity in 2006 (amounts expressed in thousands).

Outstanding short-term debt as of June 30, 2005	\$170,055
Issuance	315,000
Retirements	(170,055)
Outstanding short-term debt as of June 30, 2006	\$315,000

This amount of short-term debt is included in the restricted revenue bonds payable on the Statement of Net Assets.

Subsequent to June 30, 2006, the Administration issued a total of \$580,000,000 and redeemed a total of \$43,030,000, of revenue bonds.

Interest Rate Swaps:

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in November 2004, May 2006, and July 2006, the Administration entered into interest rate swaps in connection with its \$20 million 2004 Series I, \$40 million 2006 Series G, and \$40 million 2006 Series J variable rate revenue bonds. The intention of the swaps was to effectively change the Administration's variable interest rate on the bonds to fixed rates.

Terms. The bonds and the related swap agreements mature on September 1, 2035 and 2040, and the swaps' notional amount of \$100 million matches the \$100 million variable rate bonds. Under the swap agreements, the Administration pays the counterparty a fixed payment of 3.9% or 4.4% and receives a variable payment computed as 64% of the London Interbank Offered Rate (LIBOR) plus .3%. Conversely, the bonds' variable rate is based on the Bond Market Association Municipal Swap Index (BMA).

Fair value. Because interest rates have generally increased since execution of the swaps, the swaps have a fair value of \$681,000 as of June 30, 2006. The swaps' fair value may be countered by an increase in total interest payments required under the variable rate bonds, creating a higher synthetic interest rate. Because the coupons on the Administration's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value of the swaps is based on market value and is affirmed by an independent advisor who used valuation methods and assumptions in accordance with GASB Technical Bulletin No. 2003-1.

Credit risk. The fair value of the swaps represents the Administration's credit exposure to each counterparty as of June 30, 2006. The fair value of two swaps with one counterparty is \$859,000, and the negative fair value of one swap with a second counterparty is \$178,000. Therefore, the Administration faces a maximum possible loss of \$859,000. It is not exposed to credit risk with the second counterparty because the swap has a negative fair value. However, should the valuation of the swap change and the fair value turn positive, the Administration would be exposed to credit risk in the amount of the swap's fair value. The first counterparty is rated AAA by Standard & Poor's and Aaa by Moody's. The second counterparty is rated AA by Fitch and Aa by Moody's. To mitigate the potential for credit risk, if the counterparties' credit quality falls below A, the fair value of the swaps will be fully collateralized by the counterparties.

Basis risk. The swaps would expose the Administration to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

Termination risk. The Administration or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The counterparty can terminate the contract if the ratings on the related bonds fall below the credit rating thresholds. If a swap is terminated, the underlying variable rate bonds may be exposed to rising interest rates. If at the time of such termination a swap has a negative fair value, the Administration would be liable to the counterparty for a payment equal to the swap's fair value along with any accrued interest.

Swap payments and associated debt. Using rates as of June 30, 2006, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (amounts expressed in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary. The Administration entered into the \$40 million 2006 Series J interest rate swap agreement on May 25, 2006, and the bonds were issued on July 13, 2006. Therefore, the effect of this swap is not included in the table below.

Years Ending June 30,	Hedged Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007		\$ 1,983	\$ 302	\$ 2,285
2008		2,408	360	2,768
2009		2,396	366	2,762
2010		2,402	366	2,768
2011		2,402	366	2,768
2012-2016		12,016	1,819	13,835
2017-2021		12,004	1,825	13,829
2022-2026		12,010	1,825	13,835
2027-2031	\$ 9,130	11,310	1,679	22,119
2032-2036	32,820	8,688	1,094	42,602
2037-2041	18,050	2,097	414	20,561
Total	\$60,000	\$69,716	\$10,416	\$140,132

On July 11, 2006, the Administration entered into an interest rate swap with a notional amount of \$20,000,000. This agreement, a synthetic fixed rate contract, will hedge \$20,000,000 of 2006 Series J variable rate bonds issued on July 13, 2006.

Maryland Water Quality Financing Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Environment, has issued revenue bonds for providing loans. Interest rates range from 3.3% to 6.6% payable semiannually with annual installments from \$2,930,000 to \$10,040,000 to September 1, 2015. These bonds are payable solely from the revenue, money or property of the Administration.

During fiscal year 2006, the Administration issued \$63,560,000 to refund certain outstanding revenue bonds issued between 1992 and 1995 with interest rates ranging from 5.0% to 6.5%, in order to realize savings on debt service costs. The interest rate on the new issue is 3.3% and the bonds mature serially through September 1, 2015. The aggregate difference in debt service between the refunded debt and the refunding debt is \$11,121,000. The economic gain on the transaction, that is, the difference between the present value of the debt service streams for the refunded and refunding debt, is \$5,459,000.

Maryland Transportation Authority Bonds:

Bonds outstanding as of June 30, 2006, are as follows (amounts expressed in thousands).

Series 1992 Revenue bonds, current interest serial bonds, maturing in annual installments from \$13,790 to \$14,570 to July 1, 2006, with interest rates ranging from 5.7% to 5.8%, payable semiannually	\$ 14,570
Series 1992 Capital appreciation revenue bonds maturing in annual installments of original principal ranging from \$720 to \$6,197 from July 1, 2007, to July 1, 2015, with approximate yield to maturity of 6.3% to 6.4% and an accreted amount	80,275
Series 1998 Revenue refunding bonds maturing in annual installments ranging from \$5,675 to \$9,510 to July 1, 2006, with interest rates ranging from 4.5% to 5.0%, payable semiannually	9,510
BWI Consolidated Car Rental Facility Revenue bonds, Series 2002a, maturing in annual installments ranging from \$1,760 to \$8,505 from July 1, 2006, to July 1, 2032, with interest rates ranging from 2.8% to 6.7%, payable semiannually	113,425
BWI Parking Garage Revenue Bonds, Series 2002b, maturing in annual installments ranging from \$7,510 to \$17,470 from March 1, 2007, to March 1, 2027, with interest rates ranging from 4.0% to 5.3%, payable semiannually	253,875
BWI Facilities Projects Bonds, Series 2003, maturing in annual installments ranging from \$8,800 to \$11,200 from March 1, 2008, to March 1, 2014, with interest rates ranging from 2.2% to 2.3%, payable semiannually	69,700
WMATA Metrorail Parking Projects Bonds, Series 2004, maturing in annual installments ranging from \$1,040 to \$2,780 from March 1, 2007, to March 1, 2029, with interest rates ranging from 3.0% to 5.0%, payable semiannually	40,000
Series 2004 Revenue bonds maturing in annual installments of \$1,000 to \$15,235 from July 1, 2007, to July 1, 2032, with interest rates ranging from 4.5% to 5.3% payable semiannually, and term bonds maturing July 1, 2034, with an interest rate of 5.0%	160,000
Calvert Street Parking Project Revenue bonds, Series 2005, maturing in annual installments ranging from \$585 to \$1,415 from July 1, 2007 to July 1, 2032, with interest rates ranging from 3.3% to 4.4% payable semiannually	23,760
Total	\$765,115

Revenue bonds are payable solely from the revenues of the transportation facilities projects. The Series 1992 Revenue Bonds are subject to redemption at the Authority's option on or after July 1, 2006, at a redemption price of 100% of the principal amount.

Capital appreciation bonds payable as of June 30, 2006, include an accreted amount of \$46,237,000.

Obligations Under Capital Leases -

Obligations of business-type activities under capital leases as of June 30, 2006, are as follows (amounts expressed in thousands).

Years Ending June 30,	State Lottery Agency
2007	\$ 440
2008	439
2009	439
Total minimum lease payments	1,318
Less: Imputed interest	62
Present value of net minimum lease payments	\$1,256

The Lottery has entered into lease agreements for certain on-line gaming system equipment and a computer system. As of June 30, 2006, assets acquired under leases and the related accumulated amortization totaled \$2,002,000 and \$1,028,000, respectively, and are included in capital assets in the Statement of Net Assets, Business-type Activities.

C. Notes and Revenue Bonds Payable - Component Units:

Higher Education -

Certain State higher education institutions have issued revenue bonds for the acquisition and construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. Interest rates range from 2.5% to 6.0% on the revenue bonds. In August 2003, the University System of Maryland (System) issued equipment notes payable with interest calculated using rates of interest determined through a periodic auction process. The notes mature on July 1, 2023 and may be converted to fixed interest rate instruments at the option of the System.

Debt service requirements to maturity, excluding debt of the foundations in the amount of \$1,698,000, are as follows (amounts expressed in thousands).

Years Ending June 30,	Notes Payable and Other Long-Term Debt		Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 1,701	\$ 4,614	\$ 61,495	\$ 44,305
2008	1,815	4,526	64,065	41,678
2009	1,950	4,430	66,669	38,813
2010	2,070	4,327	64,594	36,034
2011	2,192	4,218	62,035	33,233
2012-2016	9,768	19,239	267,355	121,572
2017-2021		17,875	239,385	58,294
2022-2026	65,000	7,150	83,950	13,980
2027-2031			17,060	3,793
2032-2036			6,605	522
2037-2038			495	23
Total	84,496	66,379	933,708	392,247
Accumulated accreted interest and other deferred costs			27,506	
Total	\$84,496	\$66,379	\$961,214	\$392,247

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

As of June 30, 2006, higher education institutions have defeased debt outstanding of \$178,298,000 resulting from the refunding of previously issued debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2006, cash and cash equivalents and investments were held by the trustees for the higher education institutions in the amount of \$58,516,000 and \$12,017,000, respectively.

In 2006, St. Mary's College issued \$4,235,000 of 2006 Subordinate Revenue Bonds, Series A, to finance a new student residence hall. The bonds bear interest from 4.3% to 4.5%. Annual maturities will increase from 2008 until the final payment of \$255,000 becomes due in 2038. The bonds maturing after September 1, 2016, are callable at no premium.

Obligations under capital leases of \$7,992,000 exist as of June 30, 2006, bearing interest at annual rates ranging from 4.8% to 6.8%.

Maryland Stadium Authority (Authority) - Revenue Bonds:

Debt service requirements to maturity for Maryland Stadium Authority revenue bonds and notes payable are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2007	\$ 13,940	\$ 17,785
2008	14,925	16,963
2009	15,210	16,117
2010	16,195	15,193
2011	17,255	14,222
2012-2016	97,520	53,807
2017-2021	84,465	24,378
2022-2026	36,770	6,097
Total	296,280	164,562
Unamortized discount net of unamortized premium	(10)	
Total	\$296,270	\$164,562

The Authority has issued various lease revenue bonds and notes to finance the construction of the baseball and football stadiums, convention center expansions in Baltimore City and the Town of Ocean City and certain other facilities. The outstanding debt is to be repaid through capital lease payments from the State, as the State has entered into capital lease arrangements for the use of the facilities financed with the debt proceeds.

As of June 30, 2006, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium	\$125,494	3.0% to 5.7%	December 15, 2019
Football Stadium	76,338	4.7% to 5.8%	March 1, 2026
Baltimore City Convention Center	34,205	5.3% to 5.9%	December 15, 2014
Ocean City Convention Center	11,488	4.8% to 5.4%	December 15, 2015
Hippodrome Performing Arts Center	18,473	5.0% to 6.3%	June 15, 2022
Montgomery County Conference Center	21,542	2.0% to 5.0%	June 15, 2024
Camden Station	8,730	3.0% to 5.2%	December 15, 2024
Total	\$296,270		

12. Insurance:

The self-insurance liabilities represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.

All funds, agencies and authorities of the State participate in the self-insurance program (Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Non-incremental claims adjustment expenses have been included as part of the liability for claims and adjustments for the general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4.0% discount rate. The workers' compensation and property and casualty costs are based upon separately determined actuarial valuations for the following fiscal years ending. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 2006 were as follows (amounts expressed in thousands).

	Balance June 30, 2005	Claims and Changes in Estimates	Claim Payments	Balance June 30, 2006	Amount Due Within One Year
Property, casualty and general liability . . .	\$ 16,654	\$ 7,712	\$ 7,994	\$ 16,372	\$ 5,818
Workers' compensation.	230,364	60,453	47,824	242,993	37,664
Employee health benefits	78,211	720,567	731,875	66,903	66,903
Total self-insurance costs	\$325,229	\$788,732	\$787,693	\$326,268	\$110,385

As of June 30, 2006, the Program held \$231,389,000 in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 2005 were as follows (amounts expressed in thousands).

	Balance June 30, 2004	Claims and Changes in Estimates	Claim Payments	Balance June 30, 2005	Amount Due Within One Year
Property, casualty and general liability . . .	\$ 18,581	\$ 7,642	\$ 9,569	\$ 16,654	\$ 5,887
Workers' compensation.	221,767	53,566	44,969	230,364	35,708
Employee health benefits	66,428	759,178	747,395	78,211	78,211
Total self-insurance costs	\$306,776	\$820,386	\$801,933	\$325,229	\$119,806

As of June 30, 2005, the Program held \$107,704,000, in cash and investments designated for payments of these claims.

13. Fund Equity:

The unrestricted net assets for governmental activities on the government-wide statement of net assets is \$140,553,000. This occurs because the State incurs debt for the purposes of capital acquisition and construction on behalf of local governments and private organizations. Since the incurrence of this debt does not result in capital assets of the State, the debt is not reflected in the net asset category, invested in capital assets, net of related debt, but rather in the unrestricted net assets category. As of June 30, 2006, the State has reported outstanding general obligation bonds and capital leases applicable to these non-State projects of \$3,197,742,000. Without State financing for these capital assets, the State would have reported unrestricted net assets of governmental activities in the amount of \$3,338,295,000.

The statement of net assets for the primary government reports \$2,051,392,000 of restricted net assets, including \$15,324,000 restricted by enabling legislation.

A portion of the general fund's fund balance, in the amount of \$805,495,000 as of June 30, 2006, has been reserved for the State Reserve Fund. The State Reserve Fund is comprised of the Dedicated Purpose Account, Economic Development Opportunities Program Account, Catastrophic Event Account, Revenue Stabilization Account and Joseph Fund Account with balances as of June 30, 2006, of \$25,575,000, \$12,813,000, \$8,310,000, \$758,783,000, and \$14,000, respectively. The Dedicated Purpose Account is designed to retain appropriations for major multi-year expenditures and to meet contingency requirements. The Economic Development Opportunities Program Account is to be used for extraordinary economic development opportunities and only as a supplement to existing programs. The Catastrophic Event Account is to be used to respond without undue delay to a natural disaster or other catastrophic event that cannot be managed without appropriations. The Revenue Stabilization Account is designed to retain State revenues for future needs and reduce the need for future tax increases. The purpose of the Joseph Fund Account is to set aside reserves in time of economic prosperity to meet the emerging needs of economically disadvantaged citizens of the State.

A portion of the other governmental funds' fund balance is reserved for sinking fund deposits of \$4,497,000, set aside to redeem the 2002 and 2005 Qualified Zone Academy Bonds due in 2016 and 2020, respectively. A portion of the general fund unreserved fund balance is designated for fiscal year 2007 appropriations in the amount of \$1,311,018,000. Portions of the other governmental funds' unreserved fund balance are designated for payment of the debt service on General Obligation and Department of Transportation long-term debt in the amounts of \$117,760,000 and \$4,696,000, respectively. The undesignated deficit fund balance in other governmental funds of \$73,998,000 results from the reservation for encumbrances of \$417,294,000 for future construction projects in the capital projects fund.

The unrestricted deficit fund balance in other enterprise funds of \$3,829,000 for the Economic Development Insurance Programs occurred because of restrictions for insuring mortgages.

14. Segment Information:

The State's Economic Development Loan Program contains two separately identifiable activities that have separately issued revenue bonds outstanding; housing loans of the Community Development Administration and water quality loans of the Maryland Water Quality Administration.

The Community Development Administration (CDA) has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. The assets of the loan program and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. The bond indentures require the CDA to separately account for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

The Maryland Water Quality Administration has issued revenue bonds to encourage capital investment for wastewater and drinking water projects. These bonds are payable solely from, and secured by, the revenue, money or property of the Maryland Water Quality Administration. The bond indentures require separate accounting for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

Summary financial information for the two loan programs is presented below.

Condensed Statement of Net Assets
As of June 30, 2006
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Assets:		
Current restricted assets	\$ 743,495	\$ 30,580
Non-current restricted assets	1,732,847	108,307
Total assets	2,476,342	138,887
Liabilities:		
Current liabilities	466,599	9,638
Non-current liabilities	1,663,933	70,112
Total liabilities	2,130,532	79,750
Net Assets:		
Restricted	345,810	59,137
Total net assets	\$ 345,810	\$ 59,137

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended, June 30, 2006
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Operating income (expenses):		
Interest on loan income	\$ 73,439	\$ 3,793
Interest expense	(90,118)	(3,675)
Other operating revenues	5,362	-0-
Other operating expenses	(17,522)	(750)
Operating loss	(28,839)	(632)
Non-operating revenues (expenses)	16,753	(4,457)
Change in net assets	(12,086)	(5,089)
Beginning net assets	357,896	64,226
Ending net assets	\$345,810	\$59,137

Condensed Statement of Cash Flows
For the Year Ended, June 30, 2006
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Net cash provided (used) by:		
Operating activities	\$ 16,286	\$ 16,568
Non-capital financing activities	65,297	(20,329)
Investing activities	(96,867)	3,769
Beginning cash and cash equivalents	266,659	47
Ending cash and cash equivalents	\$251,375	\$ 55

15. Retirement Benefits:

State Retirement and Pension System of Maryland (System):

The State contributes to the System, an agent multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of 144 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1600, Baltimore, Maryland 21202-1600.

Plan Description:

The System is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland and consists of several plans which are managed by the System's Board of Trustees. All State employees and employees of participating entities are covered by the plans.

"Retirement System" - retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" - retirement programs for employees and teachers hired after January 1, 1980, and prior employees who elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after 5 years of service. A member terminating employment before attaining retirement age, but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member lives to age 60 (age 62 for the Pension System, age 50 for State police) and does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of service credit, regardless of age. Members of the Pension Systems may retire with full benefits after attaining the age 62, or after completing 30 years of Service Credit, regardless of age. State police members may retire with full benefits after attaining age 50, or completing 22 years of service credit, regardless of age. Members of the Law Enforcement Officers System may retire with full benefits at age 50, or completing 25 years of service credit, regardless of age.

The annual benefit for Retirement System Members is equal to 1/55 (1.8%) of the member's highest three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. Legislation enacted during the 1998 legislative session changed certain provisions of the Pension Systems and provided for a contributory pension system and a non-contributory pension system. A member of the contributory pension system will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.4% of the highest three consecutive year average salary multiplied by the number of years of service credit after June 30, 1998. The annual benefit for a non-contributory pension system member is equal to 0.8% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security wage base. A member of either type of pension system may retire with reduced benefits after attaining age 55 and completing 15 years of service. On April 25, 2006, new legislation was enacted with an effective date of July 1, 2006, that enhanced the pension benefits for active members, as of June 30, 2006, of the Pension System. According to the State Employees and Teacher's Pension Enhancement Benefit Act of 2006, the annual service retirement allowance remains equal to 1.2% of average final compensation times service credit to June 30, 1998 and increases to 1.8% of average final compensation times service credit from July 1, 1998 forward.

The annual retirement allowance for a State Police member is equal to 2.55% of the member's highest three-year average salary multiplied by each year of service up to a maximum of 28 years. The annual retirement allowance for a member of the Law Enforcement Officers Pension System is 2.0% of the member's highest three-consecutive year average salary multiplied by each year of service up to a maximum of 30 years. Neither the State Police Retirement System nor Law Enforcement Officers Pension System provide for an early retirement.

Funding Policy:

The State's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages, 7.0% or 5.0% depending on the retirement plan selected. Members of the contributory pension system are required to contribute to the System 2.0% of their regular salaries and wages. Members of the non-contributory pension system are required to contribute to the System 5.0% of their regular salaries and wages that exceed the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 7% of earnable compensation, except that any member who had previously elected the 5% contribution/5% COLA option shall continue to contribute 5% of earnable compensation. All contributions are deducted from each member's salary, and the resulting payments are remitted to the System on a regular and periodic basis. The contribution rate under the State Employees and Teacher's Pension Enhancement Benefit Act of 2006, which becomes effective July 1, 2006, will increase to 3% of the members' earnable compensation for fiscal year 2007, 4% for fiscal year 2008 and will be 5% of earnable compensation thereafter.

The contribution requirements of the System members, as well as the State and participating governmental employers, are established and may be amended by the Board of Trustees for the System. Effective July 1, 2002, State law provides that the contribution rates may be more or less than the actuarially determined rates for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. Contributions to these Systems are based on the Corridor Funding Method which establishes a budgetary contribution rate. During fiscal year 2006, the State paid \$652,251,000, of the required contribution totaling \$809,426,000 which was 7.0% of covered payroll and 80.6% of the required payment. The difference represents an additional pension cost liability in the government-wide statement of net assets. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll.

Annual Pension Cost and Net Pension Obligation:

The annual pension cost and net pension obligation as of June 30, 2006, are as follows (amounts expressed in thousands).

	Teachers' Retirement and Pension System	Employees' Retirement and Pension System	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System
Annual required contribution . . .	\$484,028	\$269,698	\$6,681	\$14,442	\$ 28,361
Interest on net pension obligation	6,153	15,517			
Actuarial adjustment to annual required contribution .	(4,382)	(11,052)			
Annual pension cost	485,799	274,163	6,681	14,442	28,361
Contributions made	442,062	160,725	6,681	14,442	28,361
Increase in net pension obligation	43,737	113,438			
Net pension obligation, beginning of year	79,394	200,224			
Net pension obligation end of year	\$123,131	\$313,662	\$ -	\$ -	\$ -

Three Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

Plan	Annual Pension Cost Fiscal Year Ended June 30,		
	2006	2005	2004
Teachers' Retirement and Pension System	\$ 485,799	\$ 458,735	\$ 452,380
Employees' Retirement and Pension System	274,163	246,709	173,908
State Police Retirement System	6,681	158	14,683
Judges' Retirement System	14,442	12,484	5,827
Law Enforcement Officers Pension System	28,361	24,276	22,178

Plan	Percentage of Annual Pension Cost Contributed Fiscal Year Ended June 30,		
	2006	2005	2004
Teachers' Retirement and Pension System	91%	96%	93%
Employees' Retirement and Pension System	60	53	73
State Police Retirement System	100	100	100
Judges' Retirement System	100	100	100
Law Enforcement Officers Pension System	100	100	100

Plan	Net Pension Obligation Fiscal Year Ended June 30,		
	2006	2005	2004
Teachers' Retirement and Pension System	\$123,131	\$ 79,394	\$59,113
Employees' Retirement and Pension System	313,662	200,224	82,083
State Police Retirement System	---	---	---
Judges' Retirement System	---	---	---
Law Enforcement Officers Pension System	---	---	---

The fiscal year 2006 net pension obligations were determined as a part of an actuarial valuation as of June 30, 2006. The fiscal year 2006 annual pension cost was determined as a part of an actuarial valuation as of June 30, 2004. The significant actuarial assumptions listed below were used for all plans.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing (differences in experienced and assumed return)
Rate of return on investments	7.75%
Rate of salary increase	Varies
Projected inflation rate	3.0%; general wage inflation is 4% which includes the 3% inflation assumption
Post retirement benefit increase	3.0 - 4.0%
Amortization method	Level Percent of Payroll
Remaining amortization period	14 years as of June 30, 2006 for prior UAAL
New layer as of June 30, 2001	20 years as of June 30, 2006 for new UAAL
New layer as of June 30, 2002	21 years as of June 30, 2006 for new UAAL
New layer as of June 30, 2003	22 years as of June 30, 2006 for new UAAL
New layer as of June 30, 2004	23 years as of June 30, 2006 for new UAAL
New layer as of June 30, 2005	24 years as of June 30, 2006 for new UAAL
New layer as of June 30, 2006	25 years as of June 30, 2006 for new UAAL
Status of period (Open or Closed)	Closed

Maryland Transit Administration Pension Plan (Plan):

The Plan is a single employer non-contributory plan, which covers all Maryland Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. For the year ended June 30, 2006, the Administration's covered and total payroll was \$128,806,000. The Plan is administered and funded in compliance with the collective bargaining agreements, which established the Plan.

Plan Description:

The Plan provides retirement, normal and early, death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.4% (1.3% prior to September 8, 2002) of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 2006, membership in the Plan includes 1,214 retirees and beneficiaries currently receiving benefits, 476 terminated members entitled to, but not yet receiving benefits, and 2,641 current active members. There were no investments in, loans to, or leases with parties related to the Plan. There were no Plan investments representing 5 percent or more of total Plan assets.

Funding Policy:

The Administration's required contributions are based on actuarial valuations. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling \$20,435,000 (15.9% of covered payroll) for fiscal year 2006 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2005. This amount consisted of \$3,482,000 normal cost and \$16,953,000 amortization of the actuarial accrued liability (2.7% and 13.2%, respectively, of covered payroll).

The liquidation period for the actuarial accrued liabilities, as provided by law, is 13 years from June 30, 2006.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations. The computation of the annual required contribution for fiscal year 2006 was based on the same actuarial assumptions, benefit provisions, actuarial funding method and other significant factors used to determine pension contribution requirements in the previous year.

Annual Pension Cost and Net Pension Obligation:

The Administration's annual pension costs for the fiscal years ending June 30, 2006, 2005, and 2004 were \$20,435,000, \$19,695,000 and \$19,187,000, respectively.

The Administration contributed 100% of the annual pension cost for each of the fiscal years ended June 30, 2006, 2005 and 2004 for the Plan. Accordingly, the Administration's net pension obligation was zero as of June 30, 2006, 2005 and 2004 for the Plan.

The fiscal year 2006 net pension obligations were determined as a part of an actuarial valuation as of June 30, 2006. The fiscal year 2006 annual pension cost was determined as a part of an actuarial valuation as of June 30, 2005. The significant actuarial assumptions listed below were used for the Plan.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing
Rate of return on investments	8.0% Compounded per Annum
Projected inflation rate	5.0%
Rate of salary increase	3.0% Compounded per Annum
Postretirement benefit increase	3.0% of original benefit amount
Amortization method	Level dollar annual installments
Remaining amortization period	13 years from June 30, 2006 for prior UAAL
New amortization period	21 years from June 30, 2006 for new UAAL
Status of period (Open or Closed)	Closed

During fiscal year 2006, there were no changes in actuarial assumptions or benefit provisions from 2005 that significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term.

Post Retirement Benefits:

The State also provides, in accordance with State Merit System Laws, post employment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 85% of retiree costs to cover medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for post employment health care benefits, which is based on health care insurance charges for current employees. During fiscal year 2006, retiree health care benefits paid by the State totaled \$236,328,000. Costs are recognized as they are paid. There are 33,953 participants currently receiving benefits. During fiscal year 2006, the State of Maryland received \$10,554,000 from the federal government for Medicare part D payments. See Footnote 1 concerning implementation of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.

Deferred Compensation Plan (Plan):

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. State law provides that the Governor appoint the nine member Board of Trustees of the State's Supplemental Retirement Systems. The Board is responsible for the implementation, maintenance and administration of the Plan.

The State of Maryland Match Plan and Trust was established by the State on July 1, 1999. The plan is designed to be a tax-qualified 401(a) defined contribution matching plan under Internal Revenue Code section 401(a). Under plan provisions, the State contributes to each participant's account an amount equal to each participant's contributions to the State's Supplemental Retirement Plans during the same plan year. For State fiscal years 2000 and 2001 the maximum amount contributed to this plan for each participant was \$600. The \$600 maximum contribution for each participant was reduced to \$500 for state fiscal year 2002. The Governor proposed and the State Legislature approved the elimination of the State's matching contribution to the Plan for each participant for the fiscal years beginning July 1, 2003 and July 1, 2004. The matching state contribution was reinstated for a maximum of \$400 for the fiscal year beginning July 1, 2005. An employee's interest in his/her account is fully vested at all times. The match program continues to be established and funded in statute.

16. Commitments:

The State's governmental funds lease office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2006 were approximately \$56,811,000. Future minimum rental payments for noncancelable leases of more than one year as of June 30, 2006, are as follows (amounts expressed in thousands).

Years ending June 30,	Amounts
2007.....	\$ 55,223
2008.....	49,606
2009.....	41,760
2010.....	34,663
2011.....	25,104
2012-2016.....	37,999
2017-2021.....	526
Total.....	<u>\$244,881</u>

As of June 30, 2006, the governmental funds, other than the Department of Transportation, had commitments of approximately \$186,325,000 and \$25,273,000, for the completion of projects under construction and for service contracts, respectively.

As of June 30, 2006, the Department of Transportation and Maryland Transportation Authority had commitments of approximately \$2,238,983,000 and \$533,000,000 respectively, for construction of highway and mass transit facilities.

Approximately 35% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various non-cancelable operating leases with scheduled rent increases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years Ending June 30,	Amounts
2007.....	\$146,679
2008.....	136,895
2009.....	102,129
2010.....	79,407
2011.....	40,219
2012 -2016.....	153,869
Total.....	<u>\$659,198</u>

The cost and accumulated depreciation of the assets as of June 30, 2006, are \$1,372,645,000 and \$383,290,000, respectively.

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenue was approximately \$129,485,000 for the year ended June 30, 2006.

As of June 30, 2006, the Maryland State Lottery Agency had commitments of approximately \$125,817,000, for services to be rendered relating principally to the operation of the lottery game.

As of June 30, 2006, several enterprise fund loan programs within the Department of Business and Economic Development had committed to lend a total of \$56,005,000 in additional loans, i.e., the Maryland Economic Development Assistance Authority Fund, \$32,115,000, Maryland Economic Development Opportunities Program Fund, \$23,459,000, and Maryland Economic Adjustment Fund, \$431,000. The State Funded Loan Programs and Maryland Water Quality Administration, enterprise fund loan programs, committed to provide \$66,546,000 and \$208,341,000 in loans, respectively. The Community Development Administration, also an enterprise fund loan program, has \$328,790,000 of revenue bonds outstanding that are not included in the financial statements of the Administration because the bonds are not guaranteed by the State or any other program of the State or any political subdivision. The revenue bonds are secured solely by the individual multi-family project properties, related revenues, applicable credit enhancements, or investments equal to the debt outstanding.

Pursuant to legislation enacted by the Maryland General Assembly in April, 1996, the Maryland Stadium Authority is required to pay \$2,400,000 per year into the Public School Construction Fund over ten years, subject to availability of funds, beginning in fiscal year 2001. Payment for fiscal year 2006 was required and paid.

As of June 30, 2006, the higher education fund had commitments of approximately \$315,059,000 for the completion of projects under construction.

17. Contingencies:

The State is party to legal proceedings that normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 2006, economic development loan programs were contingently liable to financial institutions for \$7,040,000 for the repayment of loans for small businesses. Non-major enterprise funds were contingently liable as insurers of \$325,582,000 of \$477,179,000 mortgage loans made by public and private lenders. Non-major component units were contingently liable as insurers of \$31,774,000 of \$498,072,000 economic development and growth bonds issued by financial institutions.

As of June 30, 2006, there were approved economic development bonds pending settlement which were insured by non-major component units for \$3,444,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 2006, the State estimates that no material liabilities will result from such audits.

18. Tobacco Settlement:

Legislation enacted by the 1999 General Assembly established the Cigarette Restitution Fund for all revenues received from any judgment against or settlement with the tobacco industry. Expenditures from the fund are made by an appropriation in the annual State budget. The law provides that at least 50% of the appropriations shall be made for tobacco or health related purposes and the remaining appropriations may be for any public purpose. During the 2002 legislative session, legislation was enacted providing that for each of fiscal years 2003 through 2006, at least 25% of the appropriations shall be made for the Maryland Medical Assistance Program (Medicaid); the 2005 legislative session increased that percentage to 30% for each year for which appropriations are made. During the 2003 legislative session, legislation was enacted requiring that .15% of the fund be appropriated for enforcing the escrow requirements for nonparticipating tobacco product manufacturers. Transfers of \$122,705,000 were made from the proceeds in the Cigarette Restitution Fund for fiscal year 2006 expenditure of appropriations.

As part of the Master Settlement Agreement between the states and the tobacco companies, Maryland's share during fiscal year 2006 was \$139,706,000, including the award from the arbitration panel for attorney fees. This amount does not include \$18,392,000, the tobacco companies paid to the disputed account pending the outcome of litigation. Pursuant to a settlement between the State and legal counsel resolving all disputes, \$29,873,000 was disbursed to legal counsel in fiscal year 2006.

It is estimated that the payments made to the State pursuant to the Master Settlement over the next nine years will total \$1.5 billion. The actual amount paid each year, however, will reflect adjustments for inflation and cigarette shipment volume. In addition, the State expects to receive \$61,099,000 during that same period pursuant to an award for attorney fees by the national arbitration panel.

19. Landfill Closure and Postclosure Care Costs:

State and Federal laws require the Maryland Environmental Service (the Service) to cover the Midshore Regional Landfill (Midshore), which the current cell is expected to close in September 2007, and to perform certain maintenance and monitoring functions at the Midshore and Easton Landfill (Easton) sites for thirty years after closure. Although closure and postclosure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service reports a portion of these closure and postclosure care costs as a liability based upon the estimated useful life of the landfill. Midshore's current cells are approximately 92% filled as of June 30, 2006. Total closure and postclosure care costs for the landfill is currently estimated to be \$10,067,000, as determined through engineering studies and \$9,216,000 has been recognized as a liability in the June 30, 2006 Combining Statement of Net Assets, Non-Major Component Units. Actual costs may be subject to change due to inflation, deflation, technology, and changes in applicable laws and regulations.

A receivable from project participants corresponding to the accrued liability has also been recorded.

The Service will construct and bring on line by July 2008 an additional cell in order to extend the life of the landfill to December 2010. Closure and postclosure cost will be adjusted in the future to include this increase in capacity.

Under Federal regulations, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2005. The Service expects to satisfy these requirements as of June 30, 2006, using the same criteria.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF MARYLAND

**Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual -
Budgetary General, Special, and Federal Funds For the Year Ended June 30, 2006**
(Expressed in Thousands)

	General Fund				Special Fund				Federal Fund			
	Budget Amounts		Variance		Budget Amounts		Variance		Budget Amounts		Variance	
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)	Original Budget	Final Budget	Actual Amounts	Positive (Negative)	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
Revenues:												
Income taxes	\$ 6,302,339	\$ 6,831,911	\$ 6,843,809	\$ 11,898	\$ 148,300	\$ 214,300	\$ 204,112	\$ (10,188)				
Sales and use taxes	3,255,921	3,350,608	3,355,168	4,560	23,900	26,800	26,527	(273)				
Other taxes	878,819	976,705	945,458	(31,247)	2,202,031	2,411,292	2,449,204	37,912				
Licenses and fees	143,821	181,709	198,533	16,824	552,758	626,636	727,113	100,477				
Charges for services	359,734	292,566	296,653	4,087	886,813	927,566	881,758	(45,808)				
Interest and other investment income	42,346	133,976	195,395	61,419	14,124	13,916	38,821	24,905				
Other	475,944	572,042	928,778	356,736	937,389	861,126	632,872	(228,254)				
Federal revenue						6,996	8,373	1,377	\$6,149,796	\$6,692,314	\$5,978,274	\$(714,040)
Total revenues	11,458,924	12,339,517	12,763,794	424,277	4,765,315	5,088,632	4,968,780	(119,852)	6,149,796	6,692,314	5,978,274	(714,040)
Expenditures and encumbrances by major function:												
Payments of revenue to civil divisions of the State	132,036	132,036	131,793	243								
Public debt					623,106	625,208	625,208					
Legislative	77,318	78,645	63,540	15,105								
Judicial review and legal	394,747	404,100	393,928	10,172	80,195	80,903	72,116	8,787	4,435	4,781	4,152	629
Executive and administrative control	151,548	178,920	163,289	15,631	156,365	208,390	181,315	27,075	184,013	212,382	172,081	40,301
Financial and revenue administration	164,042	167,860	166,305	1,555	73,343	78,465	73,850	4,615				
Budget and management	119,951	65,533	60,619	4,914	15,364	16,118	12,274	3,844				
Retirement and pension					22,817	30,964	21,159	9,805				
General services	53,381	53,907	52,401	1,506	1,336	2,978	2,496	482	787	787	772	15
Transportation and highways					2,829,308	2,871,339	2,687,412	183,927	852,003	1,051,406	860,446	190,960
Natural resources and recreation	66,650	68,082	66,761	1,321	220,059	227,027	174,982	52,045	35,380	38,929	23,139	15,790
Agriculture	25,458	27,166	26,005	1,161	79,201	82,174	30,572	51,602	13,839	15,469	5,661	9,808
Health, hospitals and mental hygiene	3,290,012	3,383,844	3,373,415	10,429	280,854	335,131	305,706	29,425	2,780,116	2,930,434	2,876,820	53,614
Human resources	562,911	557,104	550,366	6,738	66,238	77,122	71,126	5,996	1,017,310	1,093,091	977,669	115,422
Labor, licensing and regulation	17,969	19,568	16,750	2,818	23,823	28,855	18,998	9,857	139,425	139,425	121,535	17,890
Public safety and correctional services	844,653	894,502	890,938	3,564	141,549	188,560	151,888	36,672	11,228	12,425	10,577	1,848
Public education	5,573,300	5,595,163	5,506,963	88,200	43,230	46,696	35,864	10,832	1,047,814	1,111,395	783,380	328,015
Housing and community development	33,942	9,821	7,420	2,401	84,145	87,923	47,777	40,146	260,357	262,216	190,304	71,912
Business and economic development	71,492	71,657	62,782	8,875	67,930	95,532	40,183	55,349	653	653	596	57
Environment	42,277	43,073	36,558	6,515	270,099	309,633	106,656	202,977	106,286	112,289	65,455	46,834
Juvenile services	175,451	197,656	194,279	3,377	253	2,273	1,816	457	16,897	16,897	14,211	2,686
State police	225,421	232,582	230,860	1,722	61,423	59,454	55,945	3,509	4,980	15,461	7,088	8,373
State reserve fund	325,685	349,372	349,372			9,210	3,254	5,956				
Reversions	(20,000)	(20,000)		(20,000)								
Total expenditures and encumbrances	12,328,244	12,510,591	12,344,344	166,247	5,140,638	5,463,955	4,720,597	743,358	6,475,523	7,018,040	6,113,886	904,154
Excess of revenues over (under) expenditures	(869,320)	(171,074)	419,450	590,524	(375,323)	(375,323)	248,183	623,506	(325,727)	(325,726)	(135,612)	190,114

STATE OF MARYLAND

**Reconciliation of the Budgetary General and Special Fund, Fund Balances
to the GAAP General and Special Revenue Fund, Fund Balances**

June 30, 2006

(Expressed in Thousands)

	<u>General</u>	<u>Special</u>
Amount in budgetary funds, fund balance (page 85)	\$2,322,049	\$1,552,313
Budgetary special funds reclassified to the general fund	800,370	(800,370)
Budgetary special funds reclassified to other funds		(476,503)
Other non-budgetary funds reclassified to governmental funds	103,474	3,184
Total of budgetary fund balances reclassified into the governmental funds' fund structure	3,225,893	278,624
Accounting principle differences:		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash	30,162	26,422
Investments	(17,155)	
Taxes receivable	99,440	2,776
Intergovernmental receivables	60,840	
Other accounts receivable	168,355	243
Prepaid items	(137,500)	
Inventories	24,058	68,156
Due from other funds		18,895
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Salaries payable	106,496	
Accounts payable and accrued liabilities	(59,250)	(2,217)
Due to other funds	(4,030)	(9,712)
Deferred revenue	41,921	
Accrued self insurance costs	(6,676)	
Financial statement governmental funds' fund balances, June 30, 2006 (page 26)	\$3,532,554	\$ 383,187

See accompanying Notes to Required Supplementary Information.

STATE OF MARYLAND

**Required Supplemental Schedule of Funding Progress for
Pension and Retirement System**
(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Liability (AAL) Entry Age	(Unfunded AAL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll (1)	(Unfunded AAL) /Excess as a Percentage of Covered Payroll (2)
TEACHERS RETIREMENT AND PENSION SYSTEM						
2006	\$21,575,451	\$25,617,484	\$(4,042,033)	84.22%	\$5,269,185	(76.71)%
2005	20,801,529	23,305,198	(2,503,669)	89.26	4,867,396	(51.44)
2004	20,155,415	21,724,178	(1,568,763)	92.78	4,543,444	(34.53)
2003	19,626,676	21,152,063	(1,525,387)	92.79	4,522,202	(33.73)
2002	19,424,000	21,117,046	(1,693,046)	91.98	4,323,053	(39.16)
2001	19,182,750	20,126,943	(944,193)	95.31	3,994,201	(23.64)
EMPLOYEES RETIREMENT AND PENSION SYSTEM						
2006	\$12,287,942	\$15,291,091	\$(3,003,149)	80.36%	\$3,793,125	(79.17)%
2005	11,855,673	13,671,756	(1,816,083)	86.72	3,537,602	(51.34)
2004	11,514,655	12,621,578	(1,106,923)	91.23	3,337,542	(33.17)
2003	11,244,008	12,083,197	(839,189)	93.05	3,424,054	(24.51)
2002	11,162,265	11,385,749	(223,484)	98.04	3,356,671	(6.66)
2001	11,021,958	10,789,907	232,051	102.15	3,084,859	7.52
STATE POLICE RETIREMENT SYSTEM						
2006	\$ 1,301,877	\$ 1,325,875	\$ (23,998)	98.19%	\$ 80,649	(29.76)%
2005	1,289,345	1,284,950	4,395	100.34	76,463	5.75
2004	1,287,981	1,200,605	87,376	107.28	76,445	114.30
2003	1,285,201	1,062,383	222,818	120.97	80,839	275.63
2002	1,300,402	1,030,575	269,827	126.18	83,142	324.54
2001	1,305,556	993,847	311,709	131.36	79,383	392.66
JUDGES RETIREMENT SYSTEM						
2006	\$ 273,679	\$ 352,537	\$ (78,858)	77.63%	\$ 35,939	(219.42)%
2005	260,125	328,033	(67,908)	79.30	33,074	(205.32)
2004	250,272	312,285	(62,013)	80.14	32,937	(188.28)
2003	240,207	279,008	(38,801)	86.09	33,167	(116.99)
2002	234,558	267,532	(32,974)	87.67	31,824	(103.61)
2001	229,022	254,913	(25,891)	89.84	30,554	(84.74)
LAW ENFORCEMENT OFFICERS' PENSION SYSTEM						
2006	\$ 352,415	\$ 649,825	\$ (297,410)	54.23%	\$ 106,669	(278.82)%
2005	310,087	537,736	(227,649)	57.67	87,220	(261.01)
2004	271,587	454,815	(183,228)	59.71	77,369	(236.82)
2003	225,111	382,287	(157,176)	58.89	69,470	(226.25)
2002	191,100	312,058	(120,958)	61.24	65,916	(183.50)
2001	165,678	290,504	(124,826)	57.03	60,438	(206.54)
LOCAL FIRE AND POLICE SYSTEM						
2006	\$ 3,661	\$ 6,680	\$ (3,019)	54.81%	\$ 2,009	(150.27)%
2005	2,741	5,777	(3,036)	47.45	2,005	(151.42)
2004	4,747	12,243	(7,496)	38.77	1,744	(429.82)
2003	10,262	15,663	(5,401)	65.52	4,686	(115.26)
2002	10,938	18,324	(7,386)	59.69	7,188	(102.75)
2001	9,814	13,828	(4,014)	70.97	5,601	(71.67)
TOTAL OF ALL PLANS						
2006	\$ 35,795,025	\$43,243,492	\$(7,448,467)	82.78%	\$9,287,576	(80.20)%
2005	34,519,500	39,133,450	(4,613,950)	88.21	8,603,760	(53.63)
2004	33,484,657	36,325,704	(2,841,047)	92.18	8,069,481	(35.21)
2003	32,631,465	34,974,601	(2,343,136)	93.30	8,134,418	(28.81)
2002	32,323,263	34,131,284	(1,808,021)	94.70	7,867,794	(22.98)
2001	31,914,778	32,469,942	(555,164)	98.29	7,255,036	(7.65)

- (1) Covered payroll includes the payroll cost of those participants for which the State pays the retirement contribution but does not pay the participants' payroll cost. Starting with the year ending June 30, 2003, disclosure, the covered payroll has been restated to show actual salaries reported for valuation purposes, prior to any adjustments.
- (2) (Unfunded AAL)/ excess assets over AAL as a percentage of covered payroll.

STATE OF MARYLAND

**Required Supplemental Schedule of Funding Progress for
Maryland Transit Administration Pension Plan**

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2006	\$112,230	\$300,869	\$188,639	37.3 %	\$128,806	146.5 %
2005	101,810	261,536	159,726	38.9	121,415	131.6
2004	95,219	260,422	165,203	36.6	126,169	130.9

STATE OF MARYLAND

Notes to Required Supplementary Information For the Year Ended June 30, 2006

1. Budgeting and Budgetary Control:

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the General Fund, which includes all transactions of the State, unless otherwise directed to be included in another fund and the Special Fund, which includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue fund includes only the operations (other than debt service and pension activities) of the Maryland Department of Transportation. The budgetary Federal fund revenue and expenditures are included in the GAAP General and Special Funds as federal revenues and expenditures by function. An annual budget is also prepared for the Federal Fund, which accounts for substantially all grants from the Federal government, and the current unrestricted and restricted funds of the Universities and Colleges. In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund.

All State budgetary expenditures for the general, special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. The legal level of budgetary control is at the program level for the general, special and federal funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by program within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 2006, the General Assembly approved a net increase in General Fund appropriations of \$182,347,000. Appropriations for programs funded in whole or in part from the special or federal funds may permit expenditures in excess of original special or federal fund appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent of encumbrances, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special and federal funds may be carried over to the extent of (a) available resources, and (b) encumbrances. The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. It controls expenditures at the program level to ensure legal compliance. The "Agency Appropriation Unencumbered Balance Report," which is available for public inspection at the Office of the Comptroller, provides a more comprehensive accounting of activity on the basis of budgeting at the legal level of budgetary control.

The original and amended budget adopted by the General Assembly for the general, special and federal funds is presented in the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - for the year ended June 30, 2006. The State's budgetary fund structure and the basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures. A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2006, is provided in the "Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances" immediately following the budgetary schedule.



COMBINING FINANCIAL STATEMENTS AND SCHEDULES

STATE OF MARYLAND

Non-Major Governmental Funds

Debt Service Funds

General Obligation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on general long-term debt obligations are accounted for in the general obligation bonds debt service fund.

Transportation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on transportation long-term debt obligations are accounted for in the transportation bonds debt service fund.

Capital Projects Fund

Transactions related to resources obtained and used for the acquisition, construction or improvement of certain capital facilities, including those provided to political subdivisions and other public organizations are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, Federal grants and operating transfers from the State's general fund. The State enters into long-term contracts for construction of major capital projects and records the related commitments as encumbrances.

STATE OF MARYLAND

Combining Balance Sheet
Non-major Governmental Funds
June 30, 2006
(Expressed in Thousands)

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds	Bonds		Funds
Assets:				
Cash and cash equivalents	\$102,579			\$102,579
Cash and cash equivalents - restricted		\$ 938		938
Cash with fiscal agent - restricted	5,371	60		5,431
Investments - restricted		3,758		3,758
Taxes receivable, net	14,578			14,578
Other receivables	304		\$ 32	336
Due from other funds			323,864	323,864
Loans and notes receivable, net	7,539			7,539
Loans and notes receivable - restricted			6,674	6,674
Total assets	\$130,371	\$4,756	\$ 330,570	\$465,697
Liabilities:				
Vouchers payable			\$ 64,327	\$ 64,327
Accounts payable and accrued liabilities			25,785	25,785
Accounts payable to political subdivisions			12,944	12,944
Deferred revenue	\$ 101			101
Matured bonds and interest coupons payable	912	\$ 60		972
Total liabilities	1,013	60	103,056	104,129
Fund balances:				
Reserved for:				
Encumbrances			417,294	417,294
Loans and notes receivable	7,101		6,674	13,775
Debt service	4,497			4,497
Unreserved:				
Undesignated (deficit)	117,760	4,696	(196,454)	(73,998)
Total fund balances	129,358	4,696	227,514	361,568
Total liabilities and fund balances	\$130,371	\$4,756	\$ 330,570	\$465,697

STATE OF MARYLAND

**Combining Statement of Revenues
Expenditures, Other Sources and Uses of
Financial Resources and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)**

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds			Funds
Revenues:				
Other taxes	\$584,602			\$ 584,602
Interest and other investment income	623	\$ 112	\$ 8,716	9,451
Other	99			99
Total revenues	585,324	112	8,716	594,152
Expenditures:				
Education			221,054	221,054
Aid to higher education			184,983	184,983
Intergovernmental grants and revenue sharing			187,560	187,560
Capital outlays			106,094	106,094
Debt service:				
Principal retirement	393,355	92,280		485,635
Interest	230,475	49,803		280,278
Bond issuance costs			1,412	1,412
Total expenditures	623,830	142,083	701,103	1,467,016
Deficiency of revenues under expenditures	(38,506)	(141,971)	(692,387)	(872,864)
Other sources (uses) of financial resources :				
Bonds issued			750,000	750,000
Bond premium	49,455	3,694	1,638	54,787
Transfers in	30,883	141,217	148,730	320,830
Transfers out	(38,573)		(64,142)	(102,715)
Total other sources of financial resources	41,765	144,911	836,226	1,022,902
Net change in fund balances	3,259	2,940	143,839	150,038
Fund balances, beginning of the year	126,099	1,756	83,675	211,530
Fund balances, end of the year	\$129,358	\$ 4,696	\$ 227,514	\$ 361,568

STATE OF MARYLAND

Non-major Enterprise Funds

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The non-major enterprise funds consist of the economic development insurance programs of the Department of Housing and Community Development and Maryland Correctional Enterprises, which utilizes inmate labor from State correctional institutions to manufacture goods, wares and merchandise to be sold to State agencies, political subdivisions and charitable, civic, educational, fraternal or religious associations or institutions.

STATE OF MARYLAND

Combining Statement of Net Assets

Non-major Enterprise Funds

June 30, 2006

(Expressed in Thousands)

	Economic Development Insurance Programs	Maryland Correctional Enterprises	Total Non-major Enterprise Funds
Assets -			
Current assets:			
Cash and cash equivalents		\$ 10	\$ 10
Other accounts receivable		6,721	6,721
Due from other funds	\$106,429	8,143	114,572
Inventories		7,780	7,780
Loans and notes receivable, net	150		150
Other assets	830	102	932
Total current assets	107,409	22,756	130,165
Non-current assets:			
Investments	980		980
Loans and notes receivable, net	440		440
Capital assets, net of accumulated depreciation:			
Structures and improvements		446	446
Equipment		5,074	5,074
Infrastructure		87	87
Total non-current assets	1,420	5,607	7,027
Total assets	108,829	28,363	137,192
Liabilities -			
Current liabilities:			
Accounts payable and accrued liabilities	191	1,425	1,616
Accrued insurance on loan losses	7,501		7,501
Other liabilities	461	600	1,061
Unearned revenue	1,012	492	1,504
Total current liabilities	9,165	2,517	11,682
Non-current liabilities:			
Other liabilities	1,105	508	1,613
Total non-current liabilities	1,105	508	1,613
Total liabilities	10,270	3,025	13,295
Net Assets -			
Invested in capital assets, net of related debt		5,607	5,607
Restricted for insurance programs	102,388		102,388
Unrestricted (deficit)	(3,829)	19,731	15,902
Total net assets	\$ 98,559	\$25,338	\$123,897

STATE OF MARYLAND

**Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)**

	Economic Development Insurance Programs	Maryland Correctional Enterprises	Total Non-major Enterprise Funds
Operating revenues:			
Charges for services and sales	\$ 2,030	\$42,819	\$ 44,849
Interest on loan income	553		553
Other	2		2
Total operating revenues	2,585	42,819	45,404
Operating expenses:			
Cost of sales and services		33,852	33,852
General and administrative	2,890	6,514	9,404
Depreciation and amortization		1,178	1,178
Reduction in provision for insurance on loan losses	(2,879)		(2,879)
Total operating expenses	11	41,544	41,555
Operating income	2,574	1,275	3,849
Nonoperating revenues:			
Restricted investment income	4,100		4,100
Other		4	4
Total nonoperating revenues	4,100	4	4,104
Income before transfers	6,674	1,279	7,953
Transfers out		(1,000)	(1,000)
Change in net assets	6,674	279	6,953
Total net assets - beginning of the year	91,885	25,059	116,944
Total net assets - end of the year	\$98,559	\$25,338	\$123,897

STATE OF MARYLAND

Combining Statement of Cash Flows**Non-major Enterprise Funds****For the Year Ended June 30, 2006**

(Expressed in Thousands)

	Economic Development Insurance Programs	Maryland Correctional Enterprises	Total Non-major Enterprise Funds
Cash flows from operating activities:			
Receipts from customers	\$ 1,874	\$ 41,565	\$ 43,439
Payments to suppliers		(28,313)	(28,313)
Payments to employees	(2,302)	(12,020)	(14,322)
Other receipts (payments)	(3,797)	466	(3,331)
Net cash provided (used) by operating activities	(4,225)	1,698	(2,527)
Cash flows from noncapital financing activities:			
Transfers out		(1,000)	(1,000)
Net cash used by noncapital financing activities		(1,000)	(1,000)
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(698)	(698)
Net cash used in capital and related financing activities		(698)	(698)
Cash flows from investing activities:			
Interest on investments	4,225		4,225
Net cash provided by investing activities	4,225		4,225
Net change in cash and cash equivalents	-	-	-
Balance - beginning of the year		10	10
Balance - end of the year	\$ -	\$ 10	\$ 10
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 2,574	\$ 1,275	\$ 3,849
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization		1,178	1,178
Effect of changes in non-cash operating assets and liabilities:			
Other accounts receivable		(1,746)	(1,746)
Due from other funds	(3,366)	466	(2,900)
Inventories		(305)	(305)
Loans and notes receivable	54		54
Other assets	552	108	660
Accounts payable and accrued liabilities	(14)	93	79
Accrued insurance on loan losses	(3,750)		(3,750)
Unearned revenue	(152)	492	340
Other liabilities	(123)	137	14
Net cash provided (used) by operating activities	\$(4,225)	\$ 1,698	\$ (2,527)

STATE OF MARYLAND

Fiduciary Funds

The Pension and Other Employee Benefits Trust Funds include the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Funds reflect the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and are accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.

The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

STATE OF MARYLAND

Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefits Trust Funds

June 30, 2006

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan <u>December 31, 2005</u>	Total
Assets:				
Cash and cash equivalents	\$ 1,417,792	\$ 612	\$ 4,707	\$ 1,423,111
Investments:				
U.S. Treasury and agency obligations	837,914	5,247		843,161
Bonds	1,290,107	21,773		1,311,880
Corporate equity securities	7,833,583	71,103		7,904,686
Mortgage related securities	2,143,898	6,767		2,150,665
Mutual funds	18,541,248		1,419,753	19,961,001
Guaranteed investment contracts			550,008	550,008
Real estate	880,370	2,594		882,964
Annuity contracts	243,407		149,831	393,238
Investment held by borrowers under securities lent with cash collateral	2,110,139			2,110,139
Total investments	33,880,666	107,484	2,119,592	36,107,742
Other receivables	713,576	1,472	14,024	729,072
Collateral for lent securities	2,148,668			2,148,668
Total assets	38,160,702	109,568	2,138,323	40,408,593
Liabilities:				
Accounts payable and accrued liabilities	1,641,215	1,472	70	1,642,757
Collateral obligation for lent securities	2,148,668			2,148,668
Total liabilities	3,789,883	1,472	70	3,791,425
Net assets:				
Held in trust for :				
Pension benefits	34,370,819	108,096		34,478,915
Deferred compensation benefits			2,138,253	2,138,253
Total net assets	\$34,370,819	\$108,096	\$2,138,253	\$36,617,168

STATE OF MARYLAND

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefits Trust Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan <u>December 31, 2005</u>	Total
Additions:				
Contributions:				
Employers	\$ 285,275	\$ 20,435	\$ 11,847	\$ 317,557
Members	215,077		147,089	362,166
Sponsors	435,601			435,601
Total contributions	935,953	20,435	158,936	1,115,324
Investment earnings:				
Net appreciation in fair value of investments	2,804,854	(214)	84,869	2,889,509
Interest	331,474	10,975	31,310	373,759
Dividends	200,633			200,633
Real estate operating net earnings	33,496			33,496
Net change in annuity reserves			3,028	3,028
Total investment income	3,370,457	10,761	119,207	3,500,425
Less investment expense	144,808			144,808
Net investment income	3,225,649	10,761	119,207	3,355,617
Total additions	4,161,602	31,196	278,143	4,470,941
Deductions:				
Benefit payments	1,829,468	17,607	120,860	1,967,935
Refunds	16,455	2,286		18,741
Administrative expenses	18,579	227	6,035	24,841
Total deductions	1,864,502	20,120	126,895	2,011,517
Change in net assets	2,297,100	11,076	151,248	2,459,424
Net assets held in trust for pension and other employee benefits:				
Beginning of the year	32,073,719	97,020	1,987,005	34,157,744
End of the year	\$34,370,819	\$108,096	\$2,138,253	\$36,617,168

STATE OF MARYLAND

Combining Schedule of Fiduciary Net Assets
Retirement and Pension System of Maryland

June 30, 2006

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
Assets:							
Cash and cash equivalents	\$ 830,493	\$ 492,934	\$ 16,876	\$ 59,315	\$ 876	\$ 17,298	\$ 1,417,792
Investments, at fair value	20,513,011	11,603,620	251,633	1,184,822	2,978	324,602	33,880,666
Other receivables	393,331	285,695	4,832	22,650	53	7,015	713,576
Collateral for lent securities	1,305,371	732,134	16,010	74,039	157	20,957	2,148,668
Total assets	23,042,206	13,114,383	289,351	1,340,826	4,064	369,872	38,160,702
Liabilities:							
Accounts payable and accrued liabilities	994,484	561,532	12,271	56,903	137	15,888	1,641,215
Collateral obligation for lent securities	1,305,371	732,134	16,010	74,039	157	20,957	2,148,668
Total liabilities	2,299,855	1,293,666	28,281	130,942	294	36,845	3,789,883
Net Assets:							
Held in trust for pension benefits	\$20,742,351	\$11,820,717	\$261,070	\$1,209,884	\$3,770	\$333,027	\$34,370,819

STATE OF MARYLAND

**Combining Schedule of Changes in Plan Net Assets
Retirement and Pension System of Maryland
For the Year Ended June 30, 2006
(Expressed in Thousands)**

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
Additions:							
Contributions:							
Employers	\$ 10,811	\$ 217,747	\$ 14,277	\$ 6,681	\$ 542	\$ 35,217	\$ 285,275
Members	118,531	83,600	1,502	6,438		5,006	215,077
Sponsors	431,250	4,186	165				435,601
Total contributions	560,592	305,533	15,944	13,119	542	40,223	935,953
Investment earnings:							
Net increase in fair value of investments	1,699,380	960,566	20,369	99,742	668	24,129	2,804,854
Interest	196,291	115,926	2,741	12,632	139	3,745	331,474
Dividends	121,352	68,847	1,455	7,154	47	1,778	200,633
Real estate operating net earnings	20,261	11,491	245	1,179	7	313	33,496
Total investment income	2,037,284	1,156,830	24,810	120,707	861	29,965	3,370,457
Less investment expense	87,070	50,112	1,037	5,180	30	1,379	144,808
Net investment income	1,950,214	1,106,718	23,773	115,527	831	28,586	3,225,649
Total additions	2,510,806	1,412,251	39,717	128,646	1,373	68,809	4,161,602
Deductions:							
Benefit payments	1,110,016	608,037	18,766	72,520	231	19,898	1,829,468
Refunds	7,499	8,322		312		322	16,455
Administrative expenses	9,627	8,605	27	137	6	177	18,579
Net transfers	(766)	(1,294)	(11)	102	4,983	(3,014)	
Total deductions	1,126,376	623,670	18,782	73,071	5,220	17,383	1,864,502
Change in net assets	1,384,430	788,581	20,935	55,575	(3,847)	51,426	2,297,100
Net assets held in trust for pension benefits:							
Beginning of the year	19,357,921	11,032,136	240,135	1,154,309	7,617	281,601	32,073,719
End of the year	\$20,742,351	\$11,820,717	\$261,070	\$1,209,884	\$3,770	\$333,027	\$34,370,819

STATE OF MARYLAND

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2006

(Expressed in Thousands)

	Agency Funds					Total Agency Funds
	Local Income Taxes	Insurance Premium Taxes	Local Transportation Funds and Other Taxes	Payroll Taxes and Fringe Benefits	Litigant, Patient and Prisoner Accounts	
Assets:						
Cash and cash equivalents.....		\$ 10	\$ 2,757		\$66,229	\$ 68,996
Taxes receivable, net	\$ 210,269					210,269
Accounts receivable from						
state treasury.....	1,480,180	67,698	44,552	\$684		1,593,114
Other receivables.....		2,350				2,350
Total assets	\$1,690,449	\$70,058	\$47,309	\$684	\$66,229	\$1,874,729
Liabilities:						
Accounts payable to state treasury	\$ 154,219					\$ 154,219
Accounts payable and accrued liabilities....		\$70,058	\$ 2,757	\$684	\$64,417	137,916
Accounts payable to political subdivisions.	1,536,230		44,552		1,812	1,582,594
Total liabilities.....	\$1,690,449	\$70,058	\$47,309	\$684	\$66,229	\$1,874,729

STATE OF MARYLAND

**Combining Statement of Changes in Assets
and Liabilities - Agency Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)**

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<i>Litigant, Patient and Prisoner Accounts</i>				
Assets:				
Cash and cash equivalents	\$ 57,229	\$ 170,622	\$ 161,622	\$ 66,229
Liabilities:				
Accounts payable and accrued liabilities	\$ 55,892	\$ 170,104	\$ 161,579	\$ 64,417
Accounts payable to political subdivisions	1,337	518	43	1,812
Total liabilities	\$ 57,229	\$ 170,622	\$ 161,622	\$ 66,229
<i>Insurance Premium Taxes</i>				
Assets:				
Cash and cash equivalents	\$ 10			\$ 10
Accounts receivable from state treasury	61,143	\$ 30,130	\$ 23,575	67,698
Other receivables	2,400		50	2,350
Total assets	\$ 63,553	\$ 30,130	\$ 23,625	\$ 70,058
Liabilities:				
Accounts payable and accrued liabilities	\$ 63,553	\$ 30,130	\$ 23,625	\$ 70,058
<i>Local Income Taxes</i>				
Assets:				
Taxes receivable	\$ 176,594	\$ 104,704	\$ 71,029	\$ 210,269
Accounts receivable from state treasury	1,261,707	4,002,438	3,783,965	1,480,180
Total assets	\$1,438,301	\$4,107,142	\$3,854,994	\$1,690,449
Liabilities:				
Accounts payable to state treasury	\$ 103,127	\$ 154,219	\$ 103,127	\$ 154,219
Accounts payable to political subdivisions	1,335,174	3,952,923	3,751,867	1,536,230
Total liabilities	\$1,438,301	\$4,107,142	\$3,854,994	\$1,690,449
<i>Local Transportation Funds and Other Taxes</i>				
Assets:				
Cash and cash equivalents	\$ 2,776	\$ 22,509	\$ 22,528	\$ 2,757
Accounts receivable from state treasury	50,095	75,410	80,953	44,552
Total assets	\$ 52,871	\$ 97,919	\$ 103,481	\$ 47,309
Liabilities:				
Accounts payable and accrued liabilities	\$2,776	\$ 22,509	\$ 22,528	\$ 2,757
Accounts payable to political subdivisions	50,095	75,410	80,953	44,552
Total liabilities	\$ 52,871	\$ 97,919	\$ 103,481	\$ 47,309
<i>Payroll Taxes and Fringe Benefits</i>				
Assets:				
Accounts receivable from state treasury	\$ -	\$1,232,922	\$1,232,238	\$ 684
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$1,232,922	\$1,232,238	\$ 684
<i>Totals - All Agency Funds</i>				
Assets:				
Cash and cash equivalents	\$ 60,015	\$ 193,131	\$ 184,150	\$ 68,996
Taxes receivable	176,594	104,704	71,029	210,269
Accounts receivable from state treasury	1,372,945	5,340,900	5,120,731	1,593,114
Other receivables	2,400		50	2,350
Total assets	\$1,611,954	\$5,638,735	\$5,375,960	\$1,874,729
Liabilities:				
Accounts payable to state treasury	\$ 103,127	\$ 154,219	\$ 103,127	\$154,219
Accounts payable and accrued liabilities	122,221	1,455,665	1,439,970	137,916
Accounts payable to political subdivisions	1,386,606	4,028,851	3,832,863	1,582,594
Total liabilities	\$1,611,954	\$5,638,735	\$5,375,960	\$1,874,729

STATE OF MARYLAND

COMPONENT UNIT FINANCIAL STATEMENTS

Non-Major Component Units

Non-major component units are comprised of the following proprietary fund type entities.

Maryland Prepaid College Trust

The Maryland Prepaid College Trust is directed by the College Savings Plans of Maryland Board to provide a method for Maryland citizens to save money for college tuition.

Maryland Environmental Service

The Maryland Environmental Service was created as a body corporate and politic. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

Maryland Industrial Development Financing Authority

The Maryland Industrial Development Financing Authority was established as a body corporate and politic and a public instrumentality of the State to provide financial assistance to enterprises seeking to locate or expand operations in Maryland.

Maryland Food Center Authority

The Maryland Food Center Authority is a body corporate and politic which was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

STATE OF MARYLAND

Combining Statement of Net Assets

Non-major Component Units

June 30, 2006

(Expressed in Thousands)

	Maryland Prepaid College Trust	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total Non-major Component Units
Assets:					
Cash and cash equivalents	\$ 4,311	\$ 1,948		\$ 3	\$ 6,262
Investments	432,532	3,964			436,496
Tuition contracts receivable	182,785				182,785
Other accounts receivable	248	13,450		679	14,377
Due from primary government	57		\$37,991	2,091	40,139
Investments in direct financing leases ...		9,353			9,353
Other assets		3,488			3,488
Restricted assets:					
Investments		16,094			16,094
Capital assets, net of accumulated depreciation:					
Land		680		5,102	5,782
Structures and improvements		6,872		14,427	21,299
Infrastructure		1,369			1,369
Equipment	90	7,915		462	8,467
Construction in progress		830		37	867
Total assets	620,023	65,963	37,991	22,801	746,778
Liabilities:					
Accounts payable and accrued liabilities .	203	10,245		165	10,613
Unearned revenue	11,657		106	98	11,861
Accrued insurance on loan losses			2,346		2,346
Other liabilities				228	228
Bonds and notes payable:					
Due within one year		2,325			2,325
Due in more than one year		12,056			12,056
Other noncurrent liabilities:					
Due within one year	22,720	9,372		83	32,175
Due in more than one year	569,441	21,293		58	590,792
Total liabilities	604,021	55,291	2,452	632	662,396
Net Assets:					
Invested in capital assets, net of related debt	90	3,670		20,027	23,787
Restricted for capital improvements and deposits		7,119			7,119
Unrestricted (deficit)	15,912	(117)	35,539	2,142	53,476
Total net assets	\$ 16,002	\$10,672	\$35,539	\$22,169	\$ 84,382

STATE OF MARYLAND

Combining Statement of Activities
Non-major Component Units
For the Year Ended June 30, 2006
(Expressed in Thousands)

	Maryland Prepaid College Trust	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total
Expenses:					
General and administrative	\$ 1,714	\$ 8,095	\$ 1,266	\$ 1,696	\$ 12,771
Operation and maintenance of facilities ..		75,443		1,877	77,320
Reduction in provision for insurance on loan losses, net			(2,397)		(2,397)
Tuition benefits	48,746				48,746
Interest on long-term debt		1,756			1,756
Depreciation and amortization	89	3,327		657	4,073
Other	24	167			191
Total expenses	50,573	88,788	(1,131)	4,230	142,460
Program revenues:					
Charges for services and sales	62,160	91,688	520	4,163	158,531
Restricted investment income		240			240
Total charges for services	62,160	91,928	520	4,163	158,771
Operating grants and contributions		25			25
Capital grants and contributions		500			500
Total program revenues	62,160	92,453	520	4,163	159,296
Net program revenue (expense) ..	11,587	3,665	1,651	(67)	16,836
General revenues:					
Unrestricted investment income	30,801	600	1,564	230	33,195
Total general revenues	30,801	600	1,564	230	33,195
Change in net assets	42,388	4,265	3,215	163	50,031
Net assets - beginning of the year	(26,386)	6,407	32,324	22,006	34,351
Net assets - end of the year	\$ 16,002	\$10,672	\$35,539	\$22,169	\$ 84,382

STATISTICAL SECTION

Statistical Section

This part of the State's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's economic condition.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the State's financial position and well-being have changed over time.	111
Revenue Capacity These schedules contain information to help the reader assess the State's most significant own-source revenues.	118
Debt Capacity These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	123
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	128
Operating Information These schedules contain service data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	131
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement No. 34 in 2002. The schedules presenting government-wide information include information beginning in that year.	

STATE OF MARYLAND

Net Assets by Component, Primary Government**Last Five Fiscal Years***

(accrual basis of accounting)

(Expressed in Thousands)

	Year ended June 30,				
	2006	2005	2004	2003	2002
Governmental activities:					
Invested in capital assets, net of related debt.	\$13,405,751	\$12,940,305	\$11,937,207	\$11,943,249	\$11,016,638
Restricted**	149,621	145,607	114,327	75,478	70,558
Unrestricted (deficit)	140,553	(668,169)	(1,046,233)	(1,239,572)	406,557
Total governmental activities net assets	<u>\$13,695,925</u>	<u>\$12,417,743</u>	<u>\$11,005,301</u>	<u>\$10,779,155</u>	<u>\$11,493,753</u>
Business-type activities:					
Invested in capital assets, net of related debt.	\$ 1,303,668	\$ 1,217,923	\$ 1,331,400	\$ 1,231,338	\$ 1,217,578
Restricted	1,901,771	1,828,027	1,556,170	1,518,996	1,378,025
Unrestricted	1,670,224	1,450,868	1,197,542	1,208,954	1,610,282
Total business-type activities net assets	<u>\$ 4,875,663</u>	<u>\$ 4,496,818</u>	<u>\$ 4,085,112</u>	<u>\$ 3,959,288</u>	<u>\$ 4,205,885</u>
Primary government:					
Invested in capital assets, net of related debt.	\$14,709,419	\$14,158,228	\$13,268,607	\$13,174,587	\$12,234,216
Restricted	2,051,392	1,973,634	1,670,497	1,594,474	1,448,583
Unrestricted (deficit)	1,810,777	782,699	151,309	(30,618)	2,016,839
Total primary government net assets ...	<u>\$18,571,588</u>	<u>\$16,914,561</u>	<u>\$15,090,413</u>	<u>\$14,738,443</u>	<u>\$15,699,638</u>

*Information for fiscal years prior to fiscal year ended June 30, 2002, is not available.

**Information for fiscal years prior to fiscal year ended June 30, 2006 has been restated to reflect reclassifications of certain restricted and unrestricted balances.

STATE OF MARYLAND

Changes in Net Assets
Last Five Fiscal Years*
 (accrual basis of accounting)
 (Expressed in Thousands)

	Year ended June 30,				
	2006	2005	2004	2003	2002
Governmental activities (1):					
Expenses	\$ 22,326,398	\$ 21,203,763	\$ 20,382,202	\$ 19,588,410	\$ 18,234,226
Program revenues	8,073,911	7,948,502	7,941,822	7,221,988	6,579,856
Net (expense)/revenue, governmental activities	(14,252,487)	(13,255,261)	(12,440,380)	(12,366,422)	(11,654,370)
General revenues and other changes, governmental activities ..	15,530,669	14,667,703	12,592,202	11,651,824	11,209,102
Change in net assets, governmental activities	1,278,182	1,412,442	151,822	(714,598)	(445,268)
Net assets, beginning	12,417,743	11,005,301	10,779,155	11,493,753	3,371,858
Restatement (2)			74,324		8,567,163
Net assets, ending, governmental activities	\$ 13,695,925	\$ 12,417,743	\$ 11,005,301	\$ 10,779,155	\$ 11,493,753
Business-type activities (1):					
Expenses	\$ 2,018,125	\$ 1,980,350	\$ 2,038,850	\$ 2,191,318	\$ 1,960,333
Program revenues	2,850,386	2,755,686	2,594,808	2,339,895	2,097,340
Net (expense)/revenue, business-type activities	832,261	775,336	555,958	148,577	137,007
General revenues and other changes, business-type activities	(453,416)	(396,571)	(430,134)	(395,174)	(99,232)
Change in net assets, business-type activities	378,845	378,765	125,824	(246,597)	37,775
Net assets, beginning	4,496,818	4,085,112	3,959,288	4,205,885	2,995,032
Restatement (2)		32,941			1,173,078
Net assets, ending, business-type activities	\$ 4,875,663	\$ 4,496,818	\$ 4,085,112	\$ 3,959,288	\$ 4,205,885
Primary government:					
Expenses	\$ 24,344,523	\$ 23,184,113	\$ 22,421,052	\$ 21,779,728	\$ 20,194,559
Program revenues	10,924,297	10,704,188	10,536,630	9,561,883	8,677,196
Net (expense)/revenue, primary government	(13,420,226)	(12,479,925)	(11,884,422)	(12,217,845)	(11,517,363)
General revenues and other changes, primary government ..	15,077,253	14,271,132	12,162,068	11,256,650	11,109,870
Change in net assets, primary government	1,657,027	1,791,207	277,646	(961,195)	(407,493)
Net assets, beginning	16,914,561	15,090,413	14,738,443	15,699,638	6,366,890
Restatement		32,941	74,324		9,740,241
Net assets, ending, primary government	\$ 18,571,588	\$ 16,914,561	\$ 15,090,413	\$ 14,738,443	\$ 15,699,638

*Information for fiscal years prior to fiscal year ended June 30, 2002 is not available.

- (1) See the Expenses by Function, Primary Government and Revenues, Primary Government schedules for detail information on expenses and revenues.
- (2) The beginning fund balances for fiscal year 2002 were restated due to implementation of GASB Statement No. 34 and for fiscal year 2004 due to implementation of GASB Technical Bulletin No. 2004-1. The balance for fiscal year 2005 was restated for a change in accounting principles regarding the valuation of investments by the State Lottery Agency. Prior years' balances were not restated.

STATE OF MARYLAND

Expenses by Function, Primary Government

Last Five Fiscal Years*

(accrual basis of accounting)

(Expressed in Thousands)

Functions/Programs	Year ended June 30,				
	2006	2005	2004	2003	2002
Governmental activities:					
General government	\$ 693,074	\$ 747,486	\$ 598,116	\$ 665,133	\$ 610,560
Health and mental hygiene	6,588,057	6,202,439	6,090,102	5,592,272	4,908,418
Education	5,701,642	5,180,165	4,871,972	4,229,670	4,124,255
Aid for higher education**	1,103,514	1,074,048	1,081,099	1,554,955	1,536,851
Human resources	1,622,945	1,595,093	1,586,022	1,633,461	1,536,124
Public safety	1,674,995	1,498,684	1,398,017	1,338,202	1,194,952
Transportation	2,382,539	1,912,602	1,839,205	1,694,321	1,630,724
Judicial	506,787	476,253	439,576	429,302	408,571
Labor, licensing and regulation	157,675	170,344	175,551	182,584	173,625
Natural resources and recreation	181,682	184,599	169,791	168,107	149,372
Housing and community development	217,544	212,753	202,278	203,946	168,595
Environment	84,973	78,238	85,382	95,079	87,432
Agriculture	56,706	55,985	46,427	85,426	64,395
Business and economic development	57,093	58,127	58,666	43,387	55,570
Intergovernmental grants	979,450	1,453,408	1,461,133	1,422,007	1,375,043
Interest	317,722	303,539	278,865	250,558	209,739
Total governmental activities expenses	22,326,398	21,203,763	20,382,202	19,588,410	18,234,226
Business-type activities:					
Economic development - insurance programs	11	(132)	(4,911)	2,938	5,262
Economic development - general loan programs	19,129	31,010	53,237	48,633	69,381
Economic development - water quality loan programs	26,045	10,574	11,348	11,510	11,892
Economic development - housing loan programs	131,420	138,723	135,717	213,404	210,469
Unemployment insurance program	403,776	432,125	581,634	633,904	550,345
Maryland State Lottery	1,061,295	1,005,275	927,941	883,736	867,910
Maryland Transportation Authority ..	334,905	324,838	300,072	359,015	205,831
Maryland Correctional Enterprises ..	41,544	37,937	33,812	38,178	39,243
Total business-type activities expenses	2,018,125	1,980,350	2,038,850	2,191,318	1,960,333
Total primary government expenses	\$24,344,523	\$23,184,113	\$22,421,052	\$21,779,728	\$20,194,559

*Information for fiscal years prior to fiscal year ended June 30, 2002 is not available.

**Information for fiscal years 2002 & 2003 has been restated to reflect reclassification of certain expenditures.

STATE OF MARYLAND

Revenues, Primary Government

Last Five Fiscal Years

(accrual basis of accounting)

(Expressed in Thousands)

Functions/Programs	Year ended June 30,				
	2006	2005	2004	2003	2002
Governmental activities:					
Program revenues:					
Charges for services:					
General government	\$ 301,119	\$ 484,933	\$ 349,078	\$ 325,115	\$ 238,480
Health and mental hygiene	353,211	320,596	289,988	224,300	191,164
Transportation	583,346	580,691	716,422	526,253	615,261
Judicial	415,925	384,985	384,215	276,787	291,546
Other activities	303,259	298,033	277,720	303,190	271,176
Operating grants and contributions ...	5,323,300	5,091,053	5,204,906	4,843,927	4,225,374
Capital grants and contributions	793,751	788,211	719,493	722,416	746,855
Total program revenues	8,073,911	7,948,502	7,941,822	7,221,988	6,579,856
General revenues:					
Taxes:					
Income taxes	7,119,633	6,829,564	5,518,813	5,107,593	4,913,185
Sales and use taxes	3,385,391	3,149,736	2,944,534	2,719,547	2,690,099
Motor vehicle taxes	1,983,439	2,031,862	1,792,769	1,693,736	1,660,994
Other taxes	2,332,968	2,105,362	1,852,418	1,545,013	1,413,307
Unrestricted investment earnings	251,388	130,359	48,134	62,611	109,065
Special items				114,200	25,628
Transfers	457,850	420,820	435,534	409,124	396,824
Total general revenues, special items and transfers	15,530,669	14,667,703	12,592,202	11,651,824	11,209,102
Total revenues, transfers and special items - governmental activities	23,604,580	22,616,205	20,534,024	18,873,812	17,788,958
Business-type activities:					
Program revenues:					
Charges for services:					
Unemployment insurance program ..	541,386	590,805	528,238	341,004	254,483 **
Maryland State Lottery	1,560,906	1,485,733	1,395,408	1,322,239	1,306,538
Maryland Transportation Authority ..	404,446	359,157	280,098	242,429	189,658
Other activities	274,918	242,337	203,462	257,859	337,536 **
Operating grants and contributions ...	27,020	26,206	129,991	136,113	234,993
Capital grants and contributions	41,710	51,448	57,611	40,251	53,701
Total program revenues	2,850,386	2,755,686	2,594,808	2,339,895	2,376,909
General revenues:					
Unrestricted investment earnings	4,434	24,249	5,400	13,950	18,023 **
Transfers	(457,850)	(420,820)	(435,534)	(409,124)	(396,824)
Total general revenues and transfers ..	(453,416)	(396,571)	(430,134)	(395,174)	(378,801)
Total revenues and transfers - business-type activities	2,396,970	2,359,115	2,164,674	1,944,721	1,998,108
Total primary government revenues, special items, and transfers	\$26,001,550	\$24,975,320	\$22,698,698	\$20,818,533	\$19,787,066

*Information for fiscal years prior to the fiscal year ended June 30, 2002, is not available.

**Information for fiscal year 2002 has been restated to reflect reclassification of certain revenues.

STATE OF MARYLAND

Fund Balances, Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)
(Expressed in Thousands)

	Year ended June 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Fund:										
Reserved	\$1,490,670	\$1,537,565	\$1,362,310	\$1,295,012	\$1,368,973	\$1,467,309	\$1,072,483	\$1,175,393	\$1,062,223	\$865,377
Unreserved (deficit)	2,041,884	1,084,392	127,127	(110,344)	265,468	989,296	1,297,584	802,572	532,969	193,686
Total general fund	3,532,554	2,621,957	1,489,437	1,184,668	1,634,441	2,456,605	2,370,067	1,977,965	1,595,192	1,059,063
All Other Governmental Funds:										
Reserved	599,016	563,511	588,190	554,714	615,866	566,430	472,225	507,288	485,012	571,127
Unreserved, reported in:										
Special revenue funds	219,737	173,094	199,289	135,710	134,470	400,957	418,314	243,757	315,546	254,789
Capital projects funds (1)	(196,454)	(297,322)	(425,038)	(163,001)	(156,587)	222,161	(27,397)	119,510	(80,848)	(244,778)
Debt service funds	122,456	115,833	73,268	30,815	25,916	117,127	98,550	100,130	114,529	96,338
Total all other governmental funds	744,755	555,116	435,709	558,238	619,665	1,306,675	961,692	970,685	834,239	677,476
Total governmental funds	\$4,277,309	\$3,177,073	\$1,925,146	\$1,742,906	\$2,254,106	\$3,763,280	\$3,331,759	\$2,948,650	\$2,429,431	\$1,736,539

(1) The unreserved fund balance deficit of the capital projects fund will be funded by future bond proceeds and capital appropriations of the general fund.

STATE OF MARYLAND

Changes in Fund Balances, Governmental Funds,

Last Ten Fiscal Years

(modified accrual basis of accounting)
(Expressed in Thousands)

	Year ended June 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues:										
Income taxes	\$ 7,108,573	\$ 6,814,378	\$ 5,499,953	\$ 5,080,359	\$ 4,911,807	\$ 5,741,664	\$ 5,223,740	\$ 4,845,406	\$ 4,491,384	\$ 4,084,147
Retail sales and use taxes	3,382,851	3,153,676	2,945,060	2,717,383	2,689,567	2,646,103	2,497,531	2,299,266	2,161,158	2,093,876
Motor vehicle taxes and fees	1,983,439	2,031,862	1,792,769	1,693,736	1,660,994	1,577,714	1,570,433	1,507,898	1,426,340	1,373,002
Other taxes	2,332,968	2,105,362	1,852,417	1,545,013	1,413,307	1,453,179	1,366,807	1,203,907	1,149,092	1,057,592
Other licenses and fees	808,617	759,953	754,995	544,456	610,009	450,768	459,063	328,442	289,414	208,009
Charges for services	970,345	978,535	1,044,636	775,852	814,332	875,717	793,722	758,698	737,099	658,583
Revenues pledged as security for bonds	70,593	70,875	52,255	69,108	41,161 (1)					
Interest and other investment income	219,609	102,532	32,251	51,304	108,214	288,936	193,897	174,945	151,443	138,893
Federal	6,118,583	5,916,233	5,872,371	5,506,539	4,931,908	4,451,010	3,973,662	3,681,692	3,509,817	3,726,882
Other	108,689	331,224	162,748	261,226	153,510	126,379	99,482	164,922	134,829	134,875
Total revenues	23,104,267	22,264,630	20,009,455	18,244,976	17,334,809	17,611,470	16,178,337	14,965,176	14,050,576	13,475,859
Expenditures:										
Current:										
General government	738,472	703,466	627,626	640,205	627,367	586,812	546,049	495,028	427,482	382,424
Education	6,758,158	6,235,534	5,919,742	5,779,552	5,675,065	3,888,180	3,626,739	3,440,054	3,239,233	3,025,536
Business and economic development	56,374	57,287	58,259	43,441	55,418	55,952	54,593	50,344	45,083	41,026
Labor, licensing and regulation ..	154,607	166,787	174,047	181,835	174,725	177,196	183,363	158,192	148,980	141,523
Human resources	1,622,922	1,569,032	1,560,876	1,614,493	1,536,780	1,456,484	1,341,603	1,285,650	1,317,365	1,304,480
Health and mental hygiene	6,547,288	6,329,383	6,064,735	5,545,991	4,893,824	4,483,159	3,956,048	3,599,677	3,255,961	3,323,439
Environment	83,793	76,393	84,443	95,500	87,447	78,960	73,910	68,119	60,973	64,722
Transportation	1,121,714	1,273,622	1,143,520	1,123,911	1,103,756	1,070,893	1,007,331	979,560	859,460	860,986
Public safety	1,606,314	1,435,406	1,357,943	1,326,612	1,265,624	1,533,283	1,435,979	1,349,764	1,202,632	1,238,772
Judicial	490,861	462,568	434,135	421,702	407,079 (2)					
Housing and community development	215,940	211,577	202,346	205,501	168,580	121,602	103,804	106,604	97,661	80,390
Natural resources and recreation	165,439	167,018	166,730	175,845	167,160	150,850	147,179	131,541	122,113	125,269
Agriculture	64,044	56,624	60,537	83,384	91,562	75,990	59,552	53,078	42,202	38,138
Intergovernmental	1,562,539	1,453,408	1,461,133	1,422,007	1,375,043	1,336,429	1,186,985	1,151,315	1,109,755	1,036,094
Debt service:										
Principal	485,635	464,650	424,925	421,859	406,850	397,581	406,047	374,882	364,154	358,850
Interest	280,278	258,791	247,027	203,701	202,834	220,466	234,840	228,748	229,148	226,739
Capital outlays	1,538,927	1,531,461	1,461,067	1,464,110	1,415,740	1,343,570	1,121,889	1,106,875	1,044,187	1,137,356
Total expenditures	23,493,305	22,453,007	21,449,091	20,749,649	19,654,854	16,977,407	15,485,911	14,579,431	13,566,389	13,385,744

Excess (deficiency) of revenues over expenditures	(389,038)	(188,377)	(1,439,636)	(2,504,673)	(2,320,045)	634,063	692,426	385,745	484,187	90,115
Other financing sources (uses) :										
Capital leases	121,197	154,434	145,455	101,814	44,294	70,793	54,489	100,001	117,234	62,200
Proceeds from bond issues	904,907	937,480	898,818	1,196,199	615,846	422,890	202,417	483,805	514,190	460,000
Other long-term liabilities	5,320	12,321	142,015	171,239	119,460		20,000			
Proceeds from refunding bonds ...		855,840	83,591	685,594	117,458				113,340	
Payments to escrow agents		(940,591)	(83,537)	(684,697)	(117,217)				(113,661)	
Transfers in	1,133,853	1,063,529	1,111,330	1,244,595	1,453,353	1,644,746	1,321,917	1,179,676	1,020,788	920,843
Transfers out	(676,003)	(642,709)	(675,796)	(835,471)	(1,056,529)	(1,302,866)	(991,248)	(806,851)	(670,151)	(563,969)
Transfers to component units					(3)	(1,038,105)	(916,892)	(823,157)	(773,035)	(710,162)
Net other sources (uses) of financial resources	1,489,274	1,440,304	1,621,876	1,879,273	1,176,665	(202,542)	(309,317)	133,474	208,705	168,912
Special items				114,200	25,628	(4)				
Net change in fund balances ..	1,100,236	1,251,927	182,240	(511,200)	(1,117,752)	431,521	383,109	519,219	692,892	259,027
Fund balance, beginning of the year ...	3,177,073	1,925,146	1,742,906	2,254,106	3,763,280	3,331,759	2,948,650	2,429,431	1,736,539	1,476,480
Adjustments				(391,422)	(5)				1,032	
Fund balance, end of the year	\$4,277,309	\$3,177,073	\$1,925,146	\$1,742,906	\$2,254,106	\$3,763,280	\$3,331,759	\$2,948,650	\$2,429,431	\$1,736,539
Debt service as a percentage of noncapital expenditures	3.5%	3.5%	3.4%	3.3%	3.4%	4.0%	4.5%	4.5%	4.7%	4.8%

(1) These revenues were previously recorded as Federal revenue.

(2) These expenditures were previously included in public safety.

(3) Effective July 1, 2001, all transactions between the primary government and component units are treated as revenues and expenses.

(4) Includes certain one-time transfers from organizations outside the primary government.

(5) Effective July 1, 2001, the beginning fund balance was restated for inventory. Also, the Maryland Transportation Authority's activities were no longer recorded in the special revenue and debt service funds, and its beginning equity was reclassified from the respective governmental funds to the enterprise funds.

STATE OF MARYLAND

Personal Income Tax Filers by Subdivision**Tax Year Ended December 31, 2005**

(Dollars Expressed in Thousands)

Subdivision	Number of Filers	Adjusted Gross Income	Net Taxable Income	State Income Tax (1)	Local Income Tax	Total State and Local Income Tax	Local Tax Rate
Allegany	23,198	\$ 1,060,133	\$ 817,996	\$ 35,680	\$ 23,310	\$ 58,990	2.93%
Anne Arundel	204,522	15,782,427	12,358,009	556,317	313,832	870,149	2.56
Baltimore County ...	319,427	22,880,726	17,961,573	800,410	501,866	1,302,276	2.83
Calvert	32,894	2,473,959	1,880,506	85,536	52,239	137,775	2.80
Caroline	11,541	540,497	399,076	16,608	10,137	26,745	2.63
Carroll	63,862	4,445,535	3,400,311	155,194	102,935	258,129	3.05
Cecil	34,736	2,015,214	1,534,811	49,683	42,294	91,977	2.80
Charles	52,929	3,469,470	2,531,403	114,770	72,530	187,300	2.90
Dorchester	11,432	517,686	384,841	16,374	9,657	26,031	2.62
Frederick	88,698	6,345,932	4,878,261	220,176	143,166	363,342	2.96
Garrett	9,883	482,826	368,190	15,973	9,489	25,462	2.65
Harford	92,136	6,272,731	4,828,388	215,246	146,365	361,611	3.06
Howard	105,556	10,076,111	8,045,203	365,529	256,184	621,713	3.20
Kent	7,167	455,815	354,291	14,066	9,923	23,989	2.85
Montgomery	380,241	39,581,589	32,241,964	1,384,669	1,025,537	2,410,206	3.20
Prince George's	333,778	17,498,597	11,771,267	518,882	365,820	884,702	3.20
Queen Anne's	17,057	1,363,163	1,059,535	47,105	29,950	77,055	2.85
St. Mary's	35,595	2,259,092	1,731,748	78,562	52,177	130,739	3.05
Somerset	6,669	275,172	201,353	8,579	6,025	14,604	3.15
Talbot	14,598	1,291,510	1,044,209	45,180	23,253	68,433	2.25
Washington	53,553	2,861,384	2,193,160	98,063	60,255	158,318	2.80
Wicomico	33,086	1,753,655	1,354,077	56,453	40,679	97,132	3.10
Worcester	20,627	1,300,452	1,028,181	43,983	12,648	56,631	1.25
Baltimore City	201,291	9,222,183	6,798,559	287,992	195,498	483,490	3.05
Non-resident	81,179	4,887,316	4,297,550	252,937		252,937	
Total	2,235,655	\$159,113,175	\$123,464,462	\$5,483,967	\$3,505,769	\$8,989,736	

(1) See personal income tax state rates schedule for tax rate information.

Source: Revenue Administration Division, State Comptroller's Office

STATE OF MARYLAND

State Personal Income Tax and Sales Tax Rates
Last Ten Calendar Years

Year	Personal Income Tax Rate				Sales Tax Rate
	1st \$1,000 of Net Taxable Income	2nd \$1,000 of Net Taxable Income	3rd \$1,000 of Net Taxable Income	In excess of \$3,000 Net Taxable Income	
2005	2%	3%	4%	4.75%	5%
2004	2	3	4	4.75	5
2003	2	3	4	4.75	5
2002	2	3	4	4.75	5
2001	2	3	4	4.80	5
2000	2	3	4	4.85	5
1999	2	3	4	4.85	5
1998	2	3	4	4.88	5
1997	2	3	4	5.00	5
1996	2	3	4	5.00	5

Source: Revenue Administration Division, State Comptroller's Office

STATE OF MARYLAND

Personal Income Tax Filers and Liability by Income Level
Last Eight Tax Years Ended December 31st*
(Dollars, except income level, Expressed in Thousands)

2005				2004			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total	Income Tax Liability	Percentage of Total	
\$500,000 and higher	18,394	0.82%	\$1,064,405	15.04%	\$2,473,983	53.06%	
\$100,000-\$499,999	354,202	15.84	2,185,588	9.96	638,382	13.69	
\$75,000-\$99,999	282,940	12.66	804,574	16.23	703,769	15.09	
\$50,000-\$74,999	298,942	13.37	573,615	29.23	661,464	14.19	
\$25,000-\$49,999	636,912	28.49	667,108	12.16	171,094	3.67	
\$10,000-\$24,999	511,948	22.90	174,268	5.85	13,758	0.30	
Under \$10,000	132,317	5.92	14,411	100.00%	\$4,662,450	100.00	%
Total	2,235,655	100.00%	\$5,483,969				

2003				2002			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total	Income Tax Liability	Percentage of Total	
\$100,000 and higher	289,448	13.75%	\$2,107,257	12.87%	\$1,924,320	47.10%	
\$75,000-\$99,999	205,607	9.77	611,558	9.59	597,359	14.62	
\$50,000-\$74,999	345,285	16.40	695,499	16.53	700,379	17.15	
\$25,000-\$49,999	626,336	29.76	660,343	30.10	672,903	16.47	
\$10,000-\$24,999	513,506	24.40	170,481	24.97	176,215	4.31	
Under \$10,000	124,623	5.92	13,594	5.94	14,180	0.35	
Total	2,104,805	100.00%	\$4,258,732	100.00%	\$4,085,356	100.00%	

STATE OF MARYLAND

Personal Income Tax Filers and Liability by Income Level
Last Eight Tax Years Ended December 31st*
(Dollars, except income level, Expressed in Thousands)

2001			
Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total
Income Level			
\$100,000 and higher	12.33%	\$1,935,778	46.45%
\$75,000-\$99,999	9.27	596,649	14.32
\$50,000-\$74,999	16.31	715,851	17.18
\$25,000-\$49,999	30.18	710,635	17.05
\$10,000-\$24,999	25.44	192,110	4.61
Under \$10,000	6.47	16,364	0.39
Total	100.00%	\$4,167,387	100.00%

2000			
Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total
Income Level			
\$100,000 and higher	11.88%	\$2,079,398	47.90%
\$75,000-\$99,999	8.86	586,145	13.50
\$50,000-\$74,999	15.95	720,951	16.61
\$25,000-\$49,999	29.66	729,468	16.80
\$10,000-\$24,999	26.29	206,352	4.75
Under \$10,000	7.36	19,193	0.44
Total	100.00%	\$4,341,507	100.00%

1999			
Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total
Income Level			
\$100,000 and higher	10.60%	\$1,759,730	44.58%
\$75,000-\$99,999	8.50	545,918	13.83
\$50,000-\$74,999	15.92	698,803	17.70
\$25,000-\$49,999	29.81	713,496	18.08
\$10,000-\$24,999	27.36	209,862	5.32
Under \$10,000	7.81	19,534	0.49
Total	100.00%	\$3,947,343	100.00%

1998			
Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total
Income Level			
\$100,000 and higher	9.54%	\$1,563,153	42.04%
\$75,000-\$99,999	8.17	515,946	13.87
\$50,000-\$74,999	15.95	687,644	18.49
\$25,000-\$49,999	30.18	714,703	19.22
\$10,000-\$24,999	28.38	217,229	5.84
Under \$10,000	7.78	20,150	0.54
Total	100.00%	\$3,718,825	100.00%

Source: Revenue Administration Division, State Comptroller's Office

*Information not available for tax years prior to December 31, 1998.

STATE OF MARYLAND

Sales and Use Tax Receipts by Principal Type of Business
Last Ten Fiscal Years
(Expressed in Thousands)

Year	Food and Beverage	Apparel	General Merchandise	Automotive	Furniture and Appliances	Building & Industrial Supplies	Utilities & Transportation	Hardware, Machinery & Equipment	Miscellaneous	Assessment Collections	Total Collections
2006.....	\$664,654	\$158,839	\$601,431	\$230,753	\$380,642	\$530,214	\$284,661	\$88,754	\$418,491	\$23,257	\$3,381,696
2005.....	624,292	151,837	568,018	221,341	360,580	475,135	254,860	84,498	390,889	22,226	3,153,676
2004.....	591,744	144,961	538,364	216,385	333,307	417,729	231,099	78,351	387,780	29,721	2,969,441
2003.....	555,108	133,363	504,099	202,927	314,144	359,468	218,537	70,427	362,003	17,165	2,737,241
2002.....	542,276	132,067	489,102	197,122	315,080	365,132	214,839	72,343	359,394	21,184	2,708,539
2001.....	519,182	131,930	483,137	193,744	342,499	348,702	228,701	73,417	330,213	17,534	2,669,059
2000.....	486,772	121,352	455,649	179,047	328,156	339,764	193,773	72,282	327,442	16,747	2,520,984
1999.....	464,543	113,629	422,185	145,572	305,184	309,121	163,207	66,603	312,845	12,909	2,315,798
1998.....	445,391	105,111	409,091	138,356	282,982	274,130	145,474	67,133	291,963	20,331	2,179,962
1997.....	435,908	99,808	394,279	139,086	280,499	245,292	143,728	77,080	272,710	15,574	2,103,964

Source: Revenue Administration Division, Comptroller's Office

STATE OF MARYLAND

Schedule of Ratio of Outstanding Debt by Type
Last Five Fiscal Years*
(Dollars Expressed in Thousands except Per Capita)

Fiscal Year	General Bonded Debt				Other Governmental Activities Debt			Debt Ratios, Governmental Activities			Business Type Activities Debt			Total		Debt Ratios, Primary Government	
	General Obligation Bonds	Transportation Bonds	Capital Leases	Transportation Debt/Other Liabilities	Capital Leases with Component Units	Total Governmental Activities Debt	Percentage of Personal Income (1)	Per Capita (1)	Revenue Bonds	Capital Leases	Business-Type Activities Debt	Total Business-Type Activities Debt	Primary Government Debt	Total Debt	Percentage of Personal Income (1)	Per Capita (1)	
2006	\$4,868,472	\$1,079,340	\$519,592	\$404,320	\$293,140	\$7,164,864	3.05%	\$1,279	\$2,882,855	\$1,256	\$2,884,111	\$2,884,111	\$10,048,975	\$10,048,975	4.27%	\$1,794	
2005	4,511,826	1,071,620	440,236	409,587	304,220	6,737,489	3.09	1,212	2,825,315	1,673	2,826,988	2,826,988	9,564,477	9,564,477	4.38	1,721	
2004	4,102,278	1,188,090	345,028	400,813	303,901	6,340,110	3.08	1,151	2,935,711	3,132	2,938,843	2,938,843	9,278,953	9,278,953	4.51	1,684	
2003	3,932,493	964,400	262,792	264,099	296,672	5,720,456	2.89	1,050	3,220,797	2,371	3,223,168	3,223,168	8,943,624	8,943,624	4.52	1,641	
2002	3,544,178	717,980	220,649	119,460	290,510	4,892,777	2.57	909	3,412,923	3,243	3,416,166	3,416,166	8,308,943	8,308,943	4.37	1,543	

Source: General Accounting Division, State Comptroller's Office

(1) Population and personal income data can be found in the Schedule of Demographic Statistics.

*Information for fiscal years prior to fiscal year ended June 30, 2002, is not available.

STATE OF MARYLAND

**Ratio of General Bonded Debt
To Actual Value and General Bonded Debt Per Capita
Last Ten Fiscal Years**

Fiscal Year	(Expressed in Thousands)			Ratio of General Bonded Debt to Actual Property Value	General Bonded Debt per Capita
	Estimated Population (1)	Estimated Property Value	General Bonded Debt (2)		
2006	5,600	\$452,249,831	\$4,868,472	1.08%	\$869
2005	5,558	398,065,083	4,511,826	1.13	812
2004	5,509	361,689,307	4,102,278	1.13	745
2003	5,451	336,657,741	3,932,493	1.17	721
2002	5,383	318,778,365	3,544,178	1.11	658
2001	5,312	307,476,610	3,450,900	1.12	650
2000	5,255	327,817,193	3,348,866	1.02	637
1999	5,204	317,639,013	3,500,228	1.10	673
1998	5,157	309,303,572	3,270,525	1.06	634
1997	5,111	299,899,529	3,025,394	1.01	592

Source: The Fifty-second through Sixty-first Report of the State Department of Assessments and Taxation and the State Comptroller's Office.

(1) See Schedule of Demographic Statistics (page 128).

(2) Includes general obligation bonds. The primary revenue source to pay the debt service for general obligation bonds is property taxes.

STATE OF MARYLAND

Legal Debt Margin Information

Last Ten Fiscal Years
(Expressed in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2006	
Debt limit (1)	<u>\$8,730,531</u>
Debt applicable to limit:	
General obligation bonds	4,868,472
Transportation bonds	1,078,475
Nontraditional Transportation Debt (2)	791,864
Less amounts set aside for repayment of:	
General obligation debt	122,257
Transportation debt	<u>43,772</u>
Total net debt applicable to limit	<u>6,572,782</u>
Legal debt margin	<u><u>\$2,157,749</u></u>

	Year ended June 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Debt limit	\$8,730,531	\$7,819,314	\$7,301,732	\$6,800,976	\$6,116,782	\$5,747,158	\$5,677,486	\$5,483,722	\$5,397,037	\$5,250,050
Total net debt applicable to limit	6,572,782	5,463,019	5,212,769	4,862,003	4,232,412	4,081,297	4,053,728	4,223,364	4,079,910	3,901,959
Legal debt margin	<u><u>\$2,157,749</u></u>	<u><u>\$2,356,295</u></u>	<u><u>\$2,088,963</u></u>	<u><u>\$1,938,973</u></u>	<u><u>\$1,884,370</u></u>	<u><u>\$1,665,861</u></u>	<u><u>\$1,623,758</u></u>	<u><u>\$1,260,358</u></u>	<u><u>\$1,317,127</u></u>	<u><u>\$1,348,091</u></u>

Total net debt applicable to the limit	75.29%	69.87%	71.39%	71.49%	69.19%	71.01%	71.40%	77.02%	75.60%	74.32%
as a percentage of debt limit										

Source: General Accounting Division, State Comptroller's Office

(1) For general obligation bonds, the debt limit is based on separate enabling acts for particular objects or purposes that are enacted during each legislative session. There is no separately mandated maximum amount for the issuance of general obligation bonds. For transportation bonds, the General Assembly each year establishes a maximum aggregate outstanding amount that does not exceed \$1,500,000,000 up to June 30, 2004, and \$2,000,000,000, thereafter.

(2) The 2005 session of the General Assembly established a maximum outstanding principal amount of \$754,100,000 as of June 30, 2006, for all nontraditional debt of the Department. Nontraditional debt outstanding is defined as any debt instrument that is not a Consolidated Transportation Bond or GARVEE bond. This debt includes certificates of participation, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by the Maryland Economic Development Corporation or any other third party on behalf of the Department.

STATE OF MARYLAND

**Schedule of Taxes Pledged to Consolidated Transportation
Bonds and Net Revenues as Defined for Purposes of
Consolidated Transportation Bonds Coverage Tests (1)**

**Last Ten Fiscal Years
(Expressed in Thousands)**

	Year ended June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues:										
Taxes and fees (2):										
Taxes pledged to bonds	\$1,221,720	\$1,220,851	\$1,145,048	\$1,073,953	\$1,046,715	\$1,027,808	\$ 981,548	\$ 934,051	\$ 857,816	\$ 839,928
Other taxes and fees	391,618	381,516	112,305 (3)	88,833 (3)	238,303	219,426	220,672	214,483	198,101	196,044
Total taxes and fees	1,613,338	1,602,367	1,257,353	1,162,786	1,285,018	1,247,234	1,202,220	1,148,534	1,055,917	1,035,972
Operating revenues	340,742	328,273	339,635	299,844	297,489	303,206	311,909	267,946	241,357	218,874
Investment income	8,211	4,928	3,374	2,960	3,724	10,423	10,206	10,142	10,933	9,108
Other	87,640	75,902	90,943	79,023	25,950	24,619	19,361	15,486	14,228	9,913
Total revenues	2,049,931	2,011,470	1,691,305	1,544,613	1,612,181	1,585,482	1,543,696	1,442,108	1,322,435	1,273,867
Administration, operation and maintenance expenditures	1,302,582	1,237,446	1,177,889	1,159,176	1,044,908	979,318	913,059	868,439	808,439	769,977
Less: Federal funds	(70,828)	(79,892)	(76,503)	(76,841)	(50,396)	(29,418)	(24,723)	(20,472)	(11,530)	(19,966)
Total	1,231,754	1,157,554	1,101,386	1,082,335	994,512	949,900	888,336	847,967	796,909	750,011
Net revenues	\$ 818,177	\$ 853,916	\$ 589,919	\$ 462,278	\$ 617,669	\$ 635,582	\$ 655,360	\$ 594,141	\$ 525,526	\$ 523,856
Maximum annual principal and interest requirements	\$ 121,412	\$ 141,172	\$ 169,655	\$ 153,965	\$ 138,183	\$ 127,060	\$ 127,060	\$ 133,267	\$ 133,267	\$ 142,769
Ratio of net revenues to maximum annual principal and interest requirements ..	6.74	6.04	3.48	3.00	4.47	5.00	5.16	4.46	3.94	3.67
Ratio of taxes pledged to bonds to maximum annual principal and interest requirements	10.06	8.65	6.75	6.98	7.57	8.09	7.73	7.01	6.44	5.88

Source: The Secretary's Office of the Department of Transportation.

- (1) Under the terms of the bond authorizing resolutions, additional Consolidation Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts, less administration, operation and maintenance expenditures for the preceding fiscal year equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.
- (2) Consolidated Transportation Bonds are payable from certain taxes, principally, motor vehicle excise taxes, motor fuel taxes, and a portion of the corporate income tax. These amounts are available to the extent necessary for that exclusive purpose. Other receipts of the Department are available if necessary.
- (3) In fiscal years 2003 and 2004, \$160,000,000 and \$154,913,000, respectively, of other taxes and fees were transferred to the General Fund per legislation.

STATE OF MARYLAND

**Ratio of Pledged Assets to
Revenue Bonds, Community Development Administration
Last Ten Fiscal Years**

Fiscal Year	Pledged Assets (1)	Revenue Bonds Payable	Ratio of Pledged Assets to Revenue Bonds
2006	\$2,476,342	\$2,040,485	1.21
2005	2,439,264	1,973,583	1.24
2004	2,643,756	2,211,905	1.20
2003	3,003,939	2,537,388	1.18
2002	3,030,657	2,628,254	1.15
2001	3,004,743	2,640,052	1.14
2000	2,917,980	2,606,943	1.12
1999	2,759,753	2,462,918	1.12
1998	2,711,296	2,385,177	1.14
1997	2,574,572	2,297,720	1.12

(1) Bonds and notes issued by the Community Development Administration (CDA) are special obligations of CDA and are payable solely from the revenues of the applicable mortgage loan programs. Assets, principally mortgage loans, and program revenues are pledged as collateral for the revenue bonds.

STATE OF MARYLAND

Schedule of Demographic Statistics
Last Ten Years

	Population (1)	Total Personal Income (2) (Expressed in Thousands)	Per Capita Personal Income	School Enrollment (3)	Unemployment Rate (4)
2006	5,600,388	\$235,195,668	\$41,996	1,050,627	3.8%
2005	5,558,058	218,137,769	39,248	1,053,378	4.2
2004	5,508,909	205,652,120	37,331	1,056,520	4.3
2003	5,450,525	197,868,861	36,303	1,056,944	4.7
2002	5,383,377	190,331,297	35,355	1,049,733	4.6
2001	5,311,531	181,957,207	34,257	1,040,020	3.8
2000	5,254,509	167,074,691	31,796	1,017,574	3.3
1999	5,204,464	157,783,778	30,317	1,009,870	4.0
1998	5,157,328	147,842,522	28,666	998,085	4.8
1997	5,111,986	140,035,065	27,393	985,180	5.0

Sources:

(1) US Department of Commerce, Bureau of Census--"Annual Population Estimates by State"

Note: Figures are estimates for the calendar year except that the current year amount is a projected estimate for the year.

(2) US Department of Commerce, Bureau of Economic Analysis. All ten years of income data based on April 2004 Comprehensive revision of State Personal Income Statistics for 1969-2002. Preliminary estimates are provided for 2003-2006. Data provided is for the prior ending calendar year.

(3) Figures are for the calendar year. State Department of Education, grades pre-kindergarten thru grade 12. Includes public and nonpublic schools.

(4) Figures are for the fiscal year. State Department of Labor, Licensing and Regulation.

STATE OF MARYLAND

Schedule of Employment by Sector Prior Year and Nine Years Prior (3)

	Calendar Year 2005 (1)			Calendar Year 1996 (2)		
	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker
Government:						
State and local	322,890	\$ 13,759,044	\$ 819	280,422	\$ 8,860,239	\$608
Federal	125,737	9,396,410	1,437	127,656	5,849,985	881
Total government	448,627	23,155,454	993	408,078	14,710,224	693
Manufacturing	140,666	7,685,705	1,051	174,228	6,629,251	732
Natural resources and mining	6,891	229,491	640			
Construction	182,878	8,395,612	883	130,987	4,068,296	597
Trade, transportation, and utilities	466,162	16,874,386	696	102,162	3,771,240	710
Wholesale				107,961	4,251,433	757
Retail				422,265	6,911,927	315
Information services	50,368	3,122,709	1,192			
Financial activities	158,234	10,162,026	1,235	128,792	5,012,198	748
Professional and business services	383,250	20,524,156	1,030	677,338	19,992,881	568
Education and health services	340,182	13,759,870	778			
Leisure and hospitality	229,246	4,196,245	352			
Unclassified and other services	90,912	2,700,612	571	23,226	503,794	417
Total of all sectors	2,497,416	\$110,806,266	\$ 853	2,175,037	\$65,851,244	\$582

(1) Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information Publication "Employment and Payroll 2005 Annual Averages" issued July, 2006. This report reflects the new North American Industry Classification System (NAICS) coding revisions.

(2) Source: Maryland Department of Economic and Employment Development, Office of Labor Market Analysis and Information, December 31, 1996.

(3) Some of the data is not comparative due to the reclassifications made during the term of the two periods.

STATE OF MARYLAND

Maryland's Ten Largest Private Employers (1)
Calendar Years

2006 and 2005	2004 and 2003
Employer (listed alphabetically)	
Giant of Maryland LLC	Giant of Maryland LLC
Helix Health System Inc.	Helix Health System Inc.
Home Depot USA Inc.	Home Depot USA Inc.
Johns Hopkins Hospital	Johns Hopkins Hospital
Johns Hopkins University	Johns Hopkins University
Northrop Grumman Corporation	Northrop Grumman Corporation
Safeway Inc	Safeway Inc
Target	United Parcel Service
United Parcel Service	Verizon Maryland Inc.
Wal-Mart	Wal-Mart

Source: Department of Labor, Licensing and Regulation; Office of Labor Market Analysis and Information

(1) Information for prior years not available.

STATE OF MARYLAND

State Employees by Function/Program
Last Three Fiscal Years*

	Year ended June 30		
	2006	2005	2004
State Employees:			
Governmental activities:			
General government	5,656	5,493	5,604
Health and mental hygiene	11,668	11,633	11,815
Education	2,425	2,295	2,180
Human resources	6,767	6,910	6,852
Public safety	15,307	15,207	15,356
Transportation	6,523	6,599	6,799
Judicial	5,744	5,496	5,387
Labor, licensing and regulation	1,647	1,667	1,691
Natural resources and recreation	1,970	2,028	2,076
Housing and community development	256	262	254
Environment	922	901	907
Agriculture	499	500	516
Business and economic development	340	307	303
Total governmental activities employees	59,724	59,298	59,740
Business-type activities:			
Economic development - insurance programs	210	201	205
Maryland State Lottery	183	169	177
Maryland Transportation Authority	1,502	1,503	1,562
Maryland Correctional Enterprises	187	164	159
Total business-type activities employees	2,082	2,037	2,103
Total primary government employees	61,806	61,335	61,843
Component units			
Higher Education	34,882	39,388	34,397
Stadium Authority	98	93	97
Other component units	42	59	41
Total component unit employees	35,022	39,540	34,535

Source: Central Payroll Bureau, State Comptroller's Office

*Information for prior years not available.

STATE OF MARYLAND

Schedule of Miscellaneous, Operating and Capital Asset Statistics by Function
Last Three Fiscal Years*

Date of Ratification	1788		
Form of Government	Legislative - Executive - Judicial		
Land Area	9,844 square miles		
Function/Program	2006**	2005	2004
Education, Public School Enrollment	829,007	828,961	821,984
Health and Human Resources:			
Medicaid Enrollment	633,800	638,085	502,860
Children's Health Program Enrollment	102,830	95,019	98,420
WIC Food Program Recipients	109,500	108,574	106,060
Mental Hygiene Clients	96,000	92,608	90,849
Public Assistance Caseload (AFDC/TANF)	60,251	65,782	70,745
Child Care Slots Subsidized	22,475	21,095	25,434
Foster Care and Subsidized Adoption Average Caseload	15,780	14,762	15,028
Public Safety:			
Correctional Institutions Average Daily Population	28,550	26,938	27,933
Parole and Probation, Active Cases under Supervision	49,955	50,112	50,127
Youth Residential Programs, Average Daily Population	1,598	1,747	2,039
Number of Youths on Probation	6,800	6,765	6,840
Public Safety (State Police):			
Number of Police Stations	26	26	26
Number of State Police	1,591	1,593	1,596
Motor Vehicle Citations (calendar year)	514,642	434,029	459,272
Motor Vehicle Traffic Accidents (calendar year)	108,000	108,000	101,858
Transportation:			
Miles of State Highways	5,235	5,234	5,235
Lane Miles Maintained	16,660	16,646	16,680
Expenditures per Lane Mile	7,717	7,977	8,039
Number of Bridges***	1,200	1,180	1,157
Motor Vehicle Registrations	5.2 million	5.0 million	4.9 million
BWI Airport Passengers (calendar year)	19.7 million	19.1 million	20.5 million
Agricultural Land Preservation District Acreage	424,243	410,865	409,958
Department of Housing and Community Development:			
Active Single Family/Multifamily Bond Financed Loans	13,769	13,769	15,986
Department of Business and Economic Development:			
Number of businesses assisted	1,000	1,146	1,094
Number of workers trained	9,100	9,694	9,101
Higher Education (Universities, Colleges and Community Colleges):			
Number of Campuses in State	29	29	29
Number of Educators	8,711	8,606	8,432
Number of Students	256,580	251,984	246,794
Number of State Scholarships Awarded	54,038	47,025	44,851
Recreation:			
Number of State Parks and Forests	60	60	61
State Parks Daily Visitors	11.5 million	11.5 million	9.9 million
Area of State Parks, Acres	93,661	93,661	97,362
Area of State Forests, Acres	136,093	136,093	135,951

* Information for prior years not available.

** These amounts are estimates.

***On Maryland's portion of the National Highway System

Sources: State Comptroller's Office, General Accounting Division, Central Payroll Bureau, Maryland Manual @ www.mdarchives.state.md.us/msa/mdmanual, Maryland Budget, Department of Budget and Management, Department of Natural Resources, and the State Highway Administration of Maryland.

FINANCIAL SCHEDULES REQUIRED BY LAW

These schedules are required to be submitted by the Comptroller by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland.

STATE OF MARYLAND

Schedule of Estimated and Actual Revenues By Source, Budgetary Basis, for the Year Ended June 30, 2006
(Expressed in Thousands)

	Annual Budgeted Funds													
	General Fund			Special Fund			Federal Fund			Higher Education Funds		Capital Projects Fund		
										Current	Restricted Fund			
	Estimated Revenues	Actual Revenues		Estimated Revenues	Actual Revenues		Estimated Revenues	Actual Revenues	Unrestricted Fund	Restricted Fund	Actual Revenues	Actual Revenues	Total	
Taxes:														
Property tax		\$	468	\$	664,307	\$	741,272					\$104,735	\$	846,475
Franchise and corporation tax ..	\$	134,788	126,315											126,315
Death taxes		245,937	221,909											221,909
Admission and amusement tax ..				2,041	1,922									1,922
Alcoholic beverages tax		38,730	27,953											27,953
Motor vehicle fuel taxes		13,332	13,207		779,065	746,240								759,447
Income taxes		6,831,911	6,843,809		214,300	204,112								7,047,921
Sales and use taxes		3,350,608	3,355,168		26,800	26,527								3,381,695
Tobacco taxes		278,176	280,306		9	1								280,307
Motor vehicle titling taxes					774,063	719,207								719,207
Insurance company taxes		265,742	274,901		58,794	100,916								375,817
Horse racing taxes					400	2,013								2,013
Shellfish taxes					120	184								184
Boxing, wrestling or sparring taxes			399											399
Boat titling tax					30,000	30,336								30,336
Energy generation tax					39,185	41,768								41,768
Emergency telephone system tax					63,308	65,345								65,345
Total taxes	11,159,224	11,144,435		2,652,392	2,679,843							104,735	13,929,013	
Other:														
Licenses and permits	39,313	39,167		505,311	548,302									587,469
Fees for services	149,075	150,323		614,902	638,014									788,337
Fines and costs	142,396	159,366		121,325	178,811									338,177
Sales to the public	18,508	8,820		69,685	76,187									85,007
Commissions and royalties	501	16		86,017	63,024									63,040
Rentals	17	1,289		90,589	76,702									77,991
Interest on investments	133,976	195,395		13,916	38,821									63,040
Interest on loan repayments ...				5,659	4,183									77,991
Miscellaneous	98,076	86,637		109,390	73,194									234,750
Colleges and universities														4,183
Federal reimbursements and grants														159,831
Other reimbursements	124,983	137,510		6,996	8,373									2,824,005
Bond issues:				242,979	167,557									5,986,647
State - general purpose														305,067
Consolidated transportation bonds														
Premiums				235,000	100,000									750,000
State reimbursements	473,448	835,626		295,354	216,238									100,000
Appropriated from general fund														49,453
Trust funds														1,056,547
Revolving accounts														912,423
Total revenues	\$12,339,517	\$12,763,794		\$5,088,632	\$4,968,780									14,876
														40,412

STATE OF MARYLAND

Schedule of Budget and Actual Expenditures and Encumbrances by Major Function, Budgetary Basis, For the Year Ended June 30, 2006
(Expressed in Thousands)

Expenditures and Encumbrances by Major Function*	Annual Budgeted Funds										Capital Projects Fund	Total
	General Fund		Special Fund		Federal Fund		Current Unrestricted Fund		Current Restricted Fund			
	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual		
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual		
Payments of revenue to civil divisions of the State.....\$	132,036	\$ 131,793	\$ 625,208	\$ 625,208							\$	131,793
Public debt	65,284	64,184										625,208
Legislative	392,974	392,541	\$76,089	69,685	\$ 4,756	\$ 4,152						64,184
Judicial review and legal	169,705	168,299	198,065	180,756	135,801	124,726						466,378
Executive and administrative control...	165,026	164,754	77,110	74,207								473,781
Financial and revenue administration...	60,033	59,190	15,972	12,269								238,961
Budget and management			29,548	28,899								71,459
Retirement and pension.....			2,976	2,839	787	772						28,899
General services	50,388	50,387	2,833,335	2,685,277	1,051,406	860,445						53,998
Transportation and highways.....	65,529	65,298	192,569	186,653	31,887	25,099						3,545,722
Natural resources and recreation	24,822	24,812	60,643	59,505	10,949	3,939						277,050
Agriculture	3,382,496	3,381,597	319,581	303,369	2,928,819	2,883,571						88,256
Health, hospitals and mental hygiene...	551,865	550,865	76,619	72,016	1,075,250	991,639						6,568,537
Human resources	19,020	16,681	24,406	21,636	134,787	122,579						1,614,520
Labor, licensing and regulation	890,577	890,305	185,847	183,189	12,171	10,525						160,896
Public safety and correctional services.	5,523,831	5,517,071	40,956	35,287	959,997	894,295	\$2,843,834	\$2,795,398	\$950,933	\$894,719		1,084,019
Public education	6,924	6,924	60,012	55,956	241,981	192,676						10,136,770
Housing and community development	59,939	59,939	66,667	46,136	593	593						255,556
Business and economic development...	34,472	34,472	133,466	129,262	75,303	70,656						106,668
Environment.....	197,656	197,334	2,273	2,157	16,897	14,211						234,390
Juvenile services.....	230,966	230,555	58,080	56,215	10,929	6,634						213,702
State police	349,372	349,372	9,210	9,210								293,404
State reserve fund												358,582
Loan accounts.....											\$700,692	700,692
Reversions:												
Current year reversions.....	(20,000)											
Prior year reversions.....		(14,863)		(29,535)		(78,392)		(1,155)		(97)		(124,042)
Total expenditures and encumbrances	\$12,352,915	\$12,341,510	\$5,088,632	\$4,810,196	\$6,692,313	\$6,128,120	\$2,843,834	\$2,794,243	\$950,933	\$894,622	\$700,692	\$27,669,383

*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General and Special" included in the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

Schedule of Changes in Fund Equities - Budgetary Basis For the Year Ended June 30, 2006
(Expressed in Thousands)

	General Fund		Special Fund		Higher Education			Capital Projects Fund	Total
	General	State Reserve	Special	Debt Service	Federal Fund	Unrestricted Fund	Current Restricted Fund		
Fund equities, June 30, 2005	\$ 1,332,103	\$ 540,110	\$1,181,794	\$123,183		\$ 403,712	\$ 1,997	\$ 93,145	\$ 3,676,044
Increase :									
Revenues	12,378,266	385,528	4,352,043	616,737	\$5,978,274	2,842,668	893,760	859,952	28,307,228
Decrease :									
Appropriations	12,372,915		4,463,424	625,208	6,692,313	2,843,834	950,933	700,692	
Less: Current year reversions	(16,542)		(248,901)		(485,801)	(48,436)	(56,214)		
Prior year reversions	(14,863)		(29,535)		(78,392)	(1,155)	(97)		
Expenditures and encumbrances*	12,341,510		4,184,988	625,208	6,128,120	2,794,243	894,622	700,692	27,669,383
Changes to encumbrances during fiscal year 2006	2,834		(89,599)		(14,234)	120	(92)		(100,971)
Expenditures	12,344,344		4,095,389	625,208	6,113,886	2,794,363	894,530	700,692	27,568,412
Transfers in (out)	150,529	(120,143)	6,877	(7,724)	135,612	(3,909)	(324)	5,188	166,106
Fund equities, June 30, 2006	\$ 1,516,554	\$ 805,495	\$1,445,325	\$106,988	\$ -	\$ 448,108	\$903	\$257,593	\$ 4,580,966
Fund Balance:									
Reserved:									
Encumbrances	\$ 154,842		\$ 464,922		\$ 339,961	\$ 4,570	\$ 241	\$ 435,362	\$ 1,399,898
State reserve fund		\$ 805,495							805,495
Loans and notes receivable			5,822	\$ 7,572					13,394
Shore erosion loan program			6,674						6,674
Gain/Loss on Investments			1,244						1,244
Unreserved:									
Designated for:									
General long-term debt service				99,416					99,416
2007 operations	1,311,018								1,311,018
Undesignated surplus (deficit)	50,694		966,663		(339,961)	443,538	662	(177,769)	943,827
Total	\$ 1,516,554	\$ 805,495	\$1,445,325	\$106,988	\$ -	\$ 448,108	\$ 903	\$ 257,593	\$ 4,580,966

*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal" included in the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

Schedule of Funds Transferred to Political Subdivisions
For the Year Ended June 30, 2006 (1)
 (Expressed in Thousands)

Subdivision (2)	State Sources				Other Sources				Assessed Value of Real and Personal Property (2)	Amount Per \$100 of Assessed Value
	Shared Revenues	Direct Grants		Debt Service	Total	Federal Funds	State Administered			
		Appropriations	and				Local Revenue	Total		
Allegany.....	\$ 4,275	\$ 94,077	\$ 16,685	\$ 115,037	\$ 17,533	\$ 23,652	\$ 156,222	\$ 2,459,556	\$6.35	
Anne Arundel	27,301	338,962	11,347	377,610	43,978	403,774	825,362	50,398,406	1.64	
Baltimore County	38,540	591,393	23,986	653,919	84,539	554,214	1,292,672	52,724,530	2.45	
Calvert.....	5,263	93,660	4,945	103,868	7,896	70,532	182,296	7,559,282	2.41	
Caroline	3,724	44,266	2,783	50,773	7,733	14,500	73,006	1,713,328	4.26	
Carroll	10,550	154,078	7,379	172,007	14,349	108,480	294,836	12,939,527	2.28	
Cecil.....	5,735	103,639	19,915	129,289	12,825	53,632	195,746	6,623,074	2.96	
Charles	8,273	157,065	12,070	177,408	15,985	79,845	273,238	10,405,716	2.63	
Dorchester	3,860	38,860	1,198	43,918	9,533	14,974	68,425	2,041,668	3.35	
Frederick	12,250	205,371	17,590	235,211	18,332	145,519	399,062	16,680,568	2.39	
Garrett	4,889	36,974	1,033	42,896	7,858	14,078	64,832	2,813,416	2.30	
Harford	12,904	226,545	13,207	252,656	23,539	177,917	454,112	16,543,612	2.74	
Howard	14,217	207,613	31,367	253,197	15,759	313,303	582,259	29,490,945	1.97	
Kent.....	2,062	16,185	3,272	21,519	5,114	12,256	38,889	1,884,119	2.06	
Montgomery	40,393	529,846	40,735	610,974	73,589	1,049,296	1,733,859	119,822,318	1.45	
Prince George's	34,151	936,719	7,360	978,230	115,398	482,033	1,575,661	51,625,990	3.05	
Queen Anne's	4,743	39,881	10,614	55,238	5,736	37,944	98,918	5,178,878	1.91	
St. Mary's.....	6,766	92,373	5,585	104,724	11,923	69,859	186,506	6,776,917	2.75	
Somerset	2,622	33,220	7,661	43,503	9,693	7,254	60,450	907,261	6.66	
Talbot	3,008	19,980	834	23,822	5,601	30,045	59,468	5,841,966	1.02	
Washington	7,999	138,858	4,561	151,418	22,160	74,559	248,137	8,350,275	2.97	
Wicomico	6,461	111,808	7,521	125,790	20,361	50,202	196,353	4,569,837	4.30	
Worcester	4,752	30,168	2,213	37,133	10,810	27,932	75,875	11,511,879	0.66	
Baltimore City	219,357	1,102,431	16,419	1,338,207	258,688	287,876	1,884,771	21,386,764	8.81	
Total	\$484,095	\$5,343,972	\$270,280	\$6,098,347	\$818,932	\$4,103,676	\$11,020,955	\$450,249,832		

(1) In addition to the amounts shown for counties and Baltimore City, \$159,828,000 was distributed to municipalities within the counties.

(2) Source: Sixty-second Report of the Department of Assessments and Taxation, dated January 2006. Assessed value of property is 100%.

STATE OF MARYLAND

**Schedule of Taxes Receivable from
Collectors of State Property Taxes**

June 30, 2006

(Expressed in Thousands)

Political Subdivision	Taxes Receivable		
	Current Year	Prior Years	Total
Allegany	\$ 170	\$ 170	\$ 340
Anne Arundel	243	702	945
Baltimore County	(70)	435	365
Calvert	285	24	309
Caroline	10	16	26
Carroll	13	71	84
Cecil	32	623	655
Charles	23	10	33
Dorchester	140	68	208
Frederick	359	301	660
Garrett	192	30	222
Harford	47	68	115
Howard	27	994	1,021
Kent	110	21	131
Montgomery	(11,387)	11,577	190
Prince George's	169	169	338
Queen Anne's	14	4	18
St. Mary's	155	33	188
Somerset	95	11	106
Talbot	(77)	86	9
Washington	81	(113)	(32)
Wicomico	(33)	120	87
Worcester	326	87	413
Baltimore City	1,250	6,897	8,147
Total	\$ (7,826)	\$22,404	\$14,578

STATE OF MARYLAND

Schedule of Estimated Revenues - Budgetary Basis
For the Year Ending June 30, 2007
(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Income taxes	\$ 7,264,584	\$ 216,533				\$ 7,481,117
Retail sales and use tax and licenses	3,501,493	26,816				3,528,309
Motor vehicle fuel taxes and licenses	13,704	787,000				800,704
Motor vehicle tax and licenses	10,550	1,135,849				1,146,399
Property taxes		916,063 (1)				916,063
Insurance company taxes, licenses and fees	273,740					273,740
Franchise and corporation taxes	214,089					214,089
State tobacco tax and licenses	279,172					279,172
Alcoholic beverages taxes and licenses	29,223					29,223
Death taxes	219,382					219,382
Miscellaneous taxes, fees and other revenues	166,909	107,497 (2)				274,406
Budgeted tobacco settlement recoveries ...		166,084				166,084
Horse racing taxes and licenses	240	4,224				4,464
District courts fines and costs	101,565					101,565
Interest on investments	117,373	3,000				120,373
Hospital patient recoveries	83,938					83,938
Legislative	425					425
Judicial review and legal	70,510	78,395	\$ 5,288			154,193
Executive and administrative control	6,300	233,886	113,095			353,281
Financial and revenue administration	4,750	81,460				86,210
Budget and management	689	31,914				32,603
State lottery agency	483,380					483,380
Retirement and pension		23,190				23,190
General services		3,519	812			4,331
Transportation and highways		668,239	851,369			1,519,608
Natural resources and recreation	371	91,553	28,375			120,299
Agriculture	75	40,161	10,608			50,844
Health, hospitals and mental hygiene	20,192	218,214	3,052,356			3,290,762
Human resources	56	77,372	999,760			1,077,188
Labor, licensing and regulation	11,519	22,987	136,203			170,709
Public safety and correctional services	7,948	138,758	10,830			157,536
Public education	27,945	41,846	980,139	3,002,243	981,984	5,034,157
Housing and community development ...	988	51,957	235,721			288,666
Business and economic development		51,460	696			52,156
Environment	444	151,732	62,151			214,327
Juvenile justice	235	143	15,007			15,385
State police	2,900	58,058	3,300			64,258
Total estimated revenues	\$12,914,689	\$5,427,910	\$6,505,710	\$3,002,243	\$981,984	\$28,832,536 (3)

(1) Includes \$547,119 recorded in the Debt Service Fund for accounting purposes.

(2) Includes \$107,497 recorded in the Debt Service Fund for accounting purposes.

(3) Amounts are reported as of July 1, 2006, and do not reflect revisions, if any, subsequent to that date.

STATE OF MARYLAND

**Schedule of General, Special, Federal, Current Unrestricted
and Current Restricted Fund Appropriations - Budgetary Basis
For the Year Ending June 30, 2007
(Expressed in Thousands)**

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Payments of revenue to civil divisions of the State	\$ 145,034					\$ 145,034
Public debt		\$ 654,616 (1)				654,616
Legislative	68,664					68,664
Judicial review and legal	430,206	78,620	\$ 5,288			514,114
Executive and administrative control	289,381	236,887	113,095			639,363
Financial and revenue administration	192,364	81,460				273,824
Budget and management	156,647	31,914				188,561
Retirement and pension		23,191				23,191
General services	61,122	3,519	812			65,453
Transportation and highways		2,837,437	851,369			3,688,806
Natural resources and recreation	74,566	395,958	28,375			498,899
Agriculture	29,263	110,738	10,608			150,609
Health, hospitals and mental hygiene	3,558,477	372,509	3,052,356			6,983,342
Human resources	570,208	77,371	999,760			1,647,339
Labor, licensing and regulation	16,036	25,738	136,203			177,977
Public safety and correctional services	950,929	138,758	10,830			1,100,517
Public education	6,173,191	45,845	980,139	\$3,002,243	\$981,984	11,183,402
Housing and community development	33,850	51,956	235,721			321,527
Business and economic development	109,627	51,460	696			161,783
Environment	44,134	151,732	62,151			258,017
Juvenile justice	214,442	143	15,007			229,592
State police	243,936	58,058	3,300			305,294
State reserve fund	771,382					771,382
Total appropriations	\$14,133,459	\$5,427,910	\$6,505,710	\$3,002,243	\$981,984	\$30,051,306 (2)

(1) Recorded in the Debt Service Fund for accounting purposes.

(2) Amounts are reported as of July 1, 2006, and do not reflect revisions, if any, subsequent to that date.



Comptroller of Maryland, Louis L. Goldstein Treasury Building / P.O. Box 466 / Annapolis, MD 21404-0466
www.marylandtaxes.com / email - gad@comp.state.md.us / 1-888-784-0144